



# **NAVAL POSTGRADUATE SCHOOL**

**MONTEREY, CALIFORNIA**

## **THESIS**

**HIGH VALUE TALENT: IDENTIFYING,  
DEVELOPING, AND RETAINING NAVAL  
SPECIAL WARFARE'S BEST LEADERS**

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June 2012

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**HIGH VALUE TALENT: IDENTIFYING, DEVELOPING, AND RETAINING  
NAVAL SPECIAL WARFARE'S BEST LEADERS**

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## **ABSTRACT**

Despite U.S. Special Operations Forces (USSOF) having the most combat experienced units in its history, Naval Special Warfare (NSW) faces a significant mid-grade officer retention problem. This thesis draws on interviews with CEOs and other senior leaders from over 40 private sector companies. Its overall aim is to help improve NSW's ability to retain the very best officers—those leaders who have the talent and expertise to keep NSW/USSOF one-step ahead of future threats.

Three key findings are: developing and retaining talent is hard work for any organization, and requires substantial effort by senior leaders; organizations use both financial and creative non-financial tools to retain their best people; and a robust human resources department is critical to preventing retention issues from turning into trends. The thesis offers a number of ways to mitigate current and likely future retention challenges for NSW, USSOF, and the military more broadly.

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

ADS	Atlantic Dive Supply
CEO	Chief Executive Officers
CHAMP	Chevron Advanced Leadership Program
ISI	International Strategy & Investment
NSW	Naval Special Warfare
OCP	Officer Continuation Pay
PKF	Pannell Kerr Forster
SOCOM	Special Operations Command
U.S.	United States
USSOF	U.S. Special Operations Forces
YODA	Your Opportunity to Develop Another
YOS	Years of Service

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## I. INTRODUCTION

As a result of eleven straight years of war in Afghanistan and Iraq, U.S. military forces now have more sustained combat experience than at any point in our nation's modern history. This is especially true for the United States Special Operations Command (SOCOM), which has essentially transformed itself into the mainstay of the nation's efforts in Afghanistan. This bounty of employment has boosted the tactical, operational, and strategic prowess of SOCOM's units to unprecedented levels. Unfortunately, despite their incredible successes on the battlefield, elements from SOCOM are now experiencing historically high separation rates at key mid-grade leadership levels. To the detriment of these elite military units, the strategies that are being implemented to retain this incredible base of combat experience are simply not keeping pace with the increasing number of resignations.

In a recent article in *Armed Forces Journal*, Brigadier General Mark Arnold stated:

Today's best junior officers, those with high talent and a strong calling to service, should become the admirals and generals who testify before Congress and serve as Joint Chiefs in 20 years. Retaining them is vital; losing them hurts our long-term ability to creatively transform the military as security challenges change.<sup>1</sup>

The goal of this thesis is to address this problem and demonstrate how some of the same innovative talent management methods and retention tools used in corporate America could be modified and applied for use by those U.S. Special Operations Forces (USSOF) most heavily impacted by these separations.

### A. BACKGROUND

While the mid-career officer retention issue is not a new challenge in the U.S. military, it has more resonance now than ever before because of the superior expertise that is currently being lost with each separation. No matter how you look at it, actual

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<sup>1</sup> Mark Arnold, "Don't Promote Mediocrity," *Armed Forces Journal* (May 2012), [www.armedforcesjournal.com/2012/05/10122486](http://www.armedforcesjournal.com/2012/05/10122486).

combat experience cannot be replaced by training programs. Now that the war in Iraq is over and the drawdown plan for Afghanistan nears, opportunities to train new leaders in combat zones are rapidly dwindling—making the current loss of combat experienced leaders even more critical. Though relatively small in numbers, the elite units that fall under SOCOM account for a significant percentage of the military’s combat operations. Many of these highly demanding and specialized missions are ones that general purpose forces are simply not designed to conduct—while the roles for such elite units have been increasing, and will continue to do so:

[President] Obama has come to rely more and more on “special operations” for many types of missions. In an era of dwindling budgets and dispersed, hidden enemies, when Americans have become fatigued by disastrous military occupations, the value of pinprick operations by elite forces is clear. The budget for Special Operations Command has more than doubled since 2001, reaching \$10.5 billion, and the number of deployments has more than quadrupled.<sup>2</sup>

Currently, the unit within SOCOM that is experiencing the most significant retention issues is Naval Special Warfare (NSW). NSW is home to the U.S. Navy SEAL Teams, SOCOM’s maritime special operations component. Though born of the maritime environment, NSW has, over the past three decades, significantly expanded its roles to include land-based direct action operations and numerous other core mission sets. Given its relatively small size (SEALs account for approximately 2,400 of SOCOM’s 63,000 personnel)<sup>3</sup> and the severity of its retention problems, we believe that NSW would serve as an outstanding test-bed for how to retain talent.

As depicted in the diagrams below, NSW’s officer corps is currently manned at 66% in the O-3 and O-4 pay grades. Additionally, with the loss of twelve O-4s in 2010, sixteen in 2011, and at least ten projected for 2012, NSW has doubled its annual average of O-4 resignations in the past two years. Of note, the sixteen separations in 2011 accounted for a loss of 13% of all of NSW’s O-4s! This is a staggering statistic that

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<sup>2</sup> Daniel Klaidman, “Navy SEALs: Obama’s Secret Army,” *Newsweek Magazine*, February 20, 2012.

<sup>3</sup> Andrew Feickert, “U.S. Special Operations Forces (SOF): Background and Issues for Congress,” *Congressional Research Service* (March 23, 2012).

would negatively impact any organization—combat experience aside. The following two diagrams depict the gravity of NSW’s manning situation.

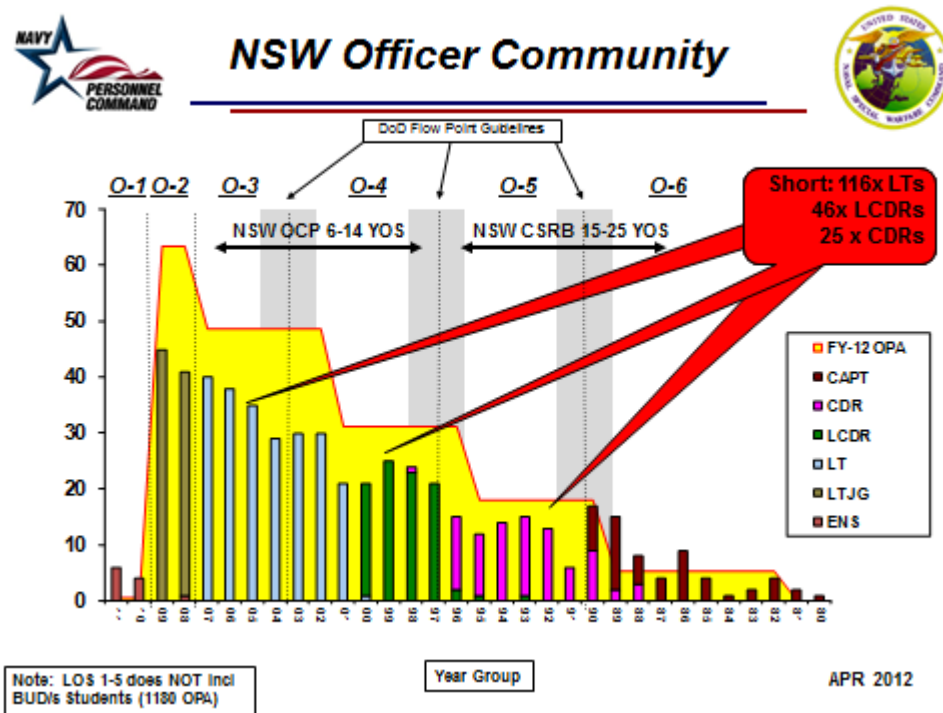
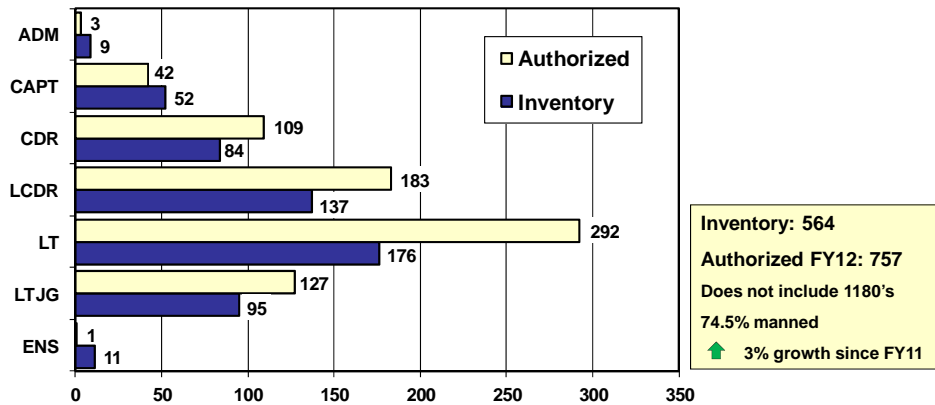


Figure 1. NSW Officer Community Manning Deficiencies<sup>4</sup>

<sup>4</sup> “Naval Special Warfare Community Management, SEAL Officer Community Health Brief,” May 2012.

## SEAL Officer Manning



- Senior manpower applied to operational staffs and other unfilled requirements.
- 1130 billet gaps to support operational requirements.
- GFM and JIA assignments are additive requirements.

**Operational Pressure on the Force from high OPTEMPO and manning shortfalls**

1

Figure 2. SEAL Officer Manning<sup>5</sup>

Not only are the losses in NSW significant from a numerical stand-point, they are actually made worse as a consequence of the extremely high caliber of those officers in this demographic who separated. As anyone in the NSW community will attest, several of the leaders who have recently chosen to separate were among the absolute top performers in their peer groups. As if losing quality, combat experienced officers is not bad enough, losing the absolute best leaders—those many believe were destined to become admirals—is even more troubling.

A similar point is made for the military as a whole in a 2010 report from the Strategic Studies Institute of the Army War College: “Since the late 1980s ... prospects for the Officer Corps’ future have been darkened by ... plummeting company-grade officer retention rates. Significantly, this leakage includes a large share of high-

<sup>5</sup> “Naval Special Warfare Community Management, SEAL Officer Community Health Brief.”

performing officers.”<sup>6</sup> The loss of the highest performing, most combat seasoned officers is obviously not good for long-term performance of NSW specifically, or SOCOM as a whole.

In addition to the obvious loss of combat leadership experience, the staggering financial commitments associated with the training of each individual SEAL must be acknowledged. NSW spends a substantial amount of money upfront for each new SEAL produced. When you add onto the initial costs, years of advanced training and a decade’s worth of combat rotations, the overall cost per individual is much greater. Additionally, a disproportionate number of top leaders are drawn from this relatively small sector of the military. For example, the last two SOCOM commanders have both been SEAL admirals, selected from a community with fewer than 600 officers on active duty. Thus, the impetus for this thesis is to suggest ways to reverse the tide of departures from NSW by top performers, which, in turn, may provide a catalyst for affecting change in other units with similar retention issues.

## **B. DEFINITIONS**

During the early stages of our research as we were conducting interviews, we realized that there were three distinct types of talented individuals being described by our interviewees. Understanding the differences among them is essential to our argument:

### **1. High Performers**

These individuals are recognized both inside and outside an organization as being highly competent professionally and managerially. These are individuals who typically deliver more than expected. A High Performer is often characterized as being motivated for the job and possessing professional pride, determination, and integrity.<sup>7</sup>

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<sup>6</sup> Tim Kane, “Why Our Best Officers Are Leaving,” *The Atlantic*, January 18, 2011, <http://www.theatlantic.com/magazine/archive/2011/01/why-our-best-officers-are-leaving/8346/3>.

<sup>7</sup> “Nordic Headhunting: Finding High Performing People,” (n.d.), <http://www.nordichead hunting.sk2.dk>.

## **2. High Potentials**

These individuals are capable of reaching the upper echelon of leadership in an organization. High Potentials not only consistently—and significantly—outperform their peers in a variety of settings, but also exhibit behaviors that reflect their organization’s culture and values in an exemplary manner. Moreover, when compared to their peers, High Potentials show a stronger capacity to grow and to be able to quickly and effectively succeed anywhere in an organization.<sup>8</sup>

## **3. Top Leaders**

Top Leaders are those responsible for the performance and productivity of a company or organization. Top Leaders are the senior leaders of an organization who not only hold high status and have seniority, but also possess significant authority. Additionally, Top Leaders shape the culture of an organization by facilitating an environment that supports, motivates, and challenges the organization’s employees to likewise achieve high levels of productivity and performance.

Essentially, Top Leaders run the organization and are ultimately in charge of its employees. In the business community, the Top Leaders are chief executive officers (CEOs), presidents, and chairmen. When we mention Top Leaders, we are referring to those members who have made it to the highest rung in their organization; this is the apex for High Potentials.

In the military’s case, only High Potentials should ascend to flag rank and be Top Leaders in their services. Because USSOF is already an organization that is full of both High Performers and High Potentials, being able to differentiate between the two is essential to the long-term success of the organization. While High Performers may be excellent in their current roles, to include leadership positions, not all will display potential to become Top Leaders. In contrast, High Potentials are not only leaders who perform, but also have the talent, tools, and motivation to become Top Leaders.

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<sup>8</sup> Douglas A. Ready, Jay A. Conger, and Linda A. Hill, “Are You a High Potential?” *Harvard Business Review*, June 2010.



### C. PURPOSE AND SCOPE

The U.S. Military must replace its industrial-age personnel processes and insular culture with contemporary personnel and talent management systems that reward innovation.<sup>9</sup>

Recognizing that a serious retention problem exists at the mid-grade officer level in NSW, the aim of this thesis is to propose some concepts that could ultimately improve not only the retention rates, but the overall performance of the organization as well. Based on our research, NSW's current retention problem is not caused by flaws in its initial recruiting, vetting, or training processes; instead, frustration occurs around the ten-year mark of service. As previously mentioned, NSW's manning at the mid-grade officer levels is significantly below desired levels, which is why this thesis focuses on this demographic.

More specifically, we focus on efforts to retain High Potentials because these are the leaders who will push the edge of the envelope to keep improving NSW and should eventually be selected to flag officer positions. Clearly, retaining all high performing mid-grade NSW officers should be a priority; however, the specific argument in this thesis is that retaining the very best people should be the first priority of any retention program. We say this because not only does leakage of High Potentials result in the loss of vital combat leadership experience, but with the loss of the best leaders comes the loss of the best junior leaders as well.

Simply put, talented people desire to work for leaders they respect, and High Potentials will quickly resign if forced to continually work for mediocre leaders. To emphasize this point, a 2010 study by the Army Research Institute found that "the main reason talented people leave is not the lure of a lucrative civilian career, but because mediocre people stay in and get promoted."<sup>10</sup> Essentially, losing the best of the best will also cause a trickle-down effect and result in the loss of the best of the rest, too.

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<sup>9</sup> Arnold, "Don't Promote Mediocrity."

<sup>10</sup> Arnold, "Don't Promote Mediocrity."

With this as our frame of reference, our goal is to identify and consolidate the best of the good ideas from the private sector for retaining High Potentials. We then review how the most relevant of those concepts could be implemented in NSW.

#### **D. METHODOLOGY AND RESEARCH**

In order to better understand the challenges associated with retaining High Potentials, our thesis team identified the need to look outside of the military for human capital best practices. Accordingly, we reached out to over thirty of the world's most successful companies from a variety of sectors for a glimpse into their methods and strategies. Our primary interview locations were New York, Boston, Dallas, Houston, Virginia Beach, and Silicon Valley. We spoke to Top Leaders at national-level banks, financial institutions, accounting firms, technology companies, law firms, restaurants, talent management consulting firms, manufacturing companies, professional sports teams, a telecommunication company, an energy company, a fashion company, a university, a home building company, a pharmaceutical company, and a non-profit foundation. We also interviewed individuals at two organizations outside the private sector, NASA and an electrical workers' union, in order to further diversify our research.

Much like the elite military units that we aim to assist, these top companies and organizations regularly face the challenge of retaining top talent, or High Potentials, and selecting them from amidst a sea of High Performers. Leadership talent management has been thoroughly studied in the private sector for years, a trend that further intensified with the dawning of the knowledge economy. During our research, we saw first-hand the importance that companies place on talent management—especially relative to the military. This was eye-opening because, if anything, retaining talent is even more critical in the military due to the fact that Top Leaders in elite military units must come from within. In the business community, companies have the ability to poach senior executives from other companies. The military cannot do this. Its senior leaders can only come from within.

Over the course of our team's one-on-one interviews with Top Leaders, human resource specialists, and professional development experts, we were exposed to numerous

human capital practices focused on growing High Potentials from within. Many of these methods could prove valuable for NSW and ultimately the whole of USSOF—with adjustments to tailor them to the military system.

In much the same way our research led us to the High Performer, High Potential, and Top Leader typology described above, we also discerned a pattern: once a strong performer is **identified** as a High Potential, he or she is **groomed and developed** by senior leaders who have a long-term strategy in mind for that individual, and specific **retention tools** are employed to recognize and reward him or her along the way. The aim: to encourage the High Potential to stay with the organization. Our thesis is organized to track this process.

Chapter II focuses on why identification matters, how identification is done, and what companies do with this information. Chapter III focuses on practices used to groom talent and develop loyalty between an individual and an organization. We will point to the often overlooked reality that without such processes, even the best of the best will fall short of their true potential. In Chapter IV, we describe the best mechanisms for effectively building loyalty between the organization and High Potentials. More specifically, we will address financial incentive structures, work-life balance, and ways through which the culture of an organization contributes to improved retention. In Chapter V, we identify the methods most transferable and applicable to NSW, and discuss potential ways to implement them. Essentially, Chapter V offers our recommendations for the way ahead.

## **E. ALIBIS**

To reiterate two points: NSW has the most combat experienced officer corps in its history, and NSW can only grow its leaders from within. It only makes sense to take the retention problem seriously, but especially since experiences of the past decade are not duplicable by even the best training routines. If NSW is vital to our nation's security—and everyone from the President and the Secretary of Defense to the Secretary of State, recognize it is—then something needs to be done.

Whether any of the concepts in this thesis bear fruit, there is a single underlying theme throughout: retaining High Potentials is hard work for any organization, and requires time and effort to do it right. A fact that was made clear during our research was that the average amount of time that the CEOs and Top Leaders we spoke with spend on human capital issues is between 25% and 33% of their time—with two of the most successful CEOs assessing the number as closer to 45%. These are stunning figures that should suggest what all military leaders should do, namely work harder towards developing their up-and-coming young leaders. If the CEO of an industry-leading company that has over 400,000 employees can do this, so can USSOF's leaders.

Our thesis team believes that elite military units, and those belonging to SOCOM in particular, would perform at levels significantly closer to their full potential by implementing some of the talent management practices used in the corporate world. In order to implement these, human resource staffs would need to be augmented with more specialists from outside the military. By bringing in experts who have a proven track record of running successfully integrated civilian sector retention programs, military leaders would be able to delegate more of these retention-related tasks—permitting them more time to creatively communicate with those identified as High Potentials.

Also important to note is that despite the need to differentiate between High Potentials and High Performers, it must be clearly understood that the process of enticing High Potentials to stay with NSW (or any other SOCOM element) must be done in a way that does not make the retention problem worse for those who are not so identified. High Performers are critical to any organization and must be groomed and retained effectively as well. While some of the recommendations that follow apply specifically to the High Potentials, the vast majority apply to the leadership corps in general—including the High Performers.

Finally, although we discuss identification, development, and retention of talent sequentially in this thesis, they are by no means sequential or independent processes. These processes are continuous, iterative, and generally not stand-alone. In fact, the essence of effective talent management is to never become complacent or regimented. However, because it is very difficult (if not impossible) to write a coherent narrative

without imposing some sort of sequence, for the purposes of this thesis we have broken the flow into Identification, Grooming and Developing Loyalty, and Retention. Although no member of our thesis team has personally chosen to separate from military service, all of us serve in various units within NSW and have seen first-hand the direct negative impacts that occur when talented, irreplaceable individuals separate from NSW. It is for this reason, as much as any other, that we seek ways to redress this trend. To strengthen the force and save lives on the battlefield demands nothing less.

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## II. IDENTIFICATION OF HIGH POTENTIALS

While there are a multitude of factors organizations point to for their ultimate success, few are more commonly acknowledged than having quality leaders throughout the organization. More specifically, organizations try to identify the visionary leaders who will support and motivate employees as they shape the organization's culture.

Identifying and retaining strong employees and leaders is especially highlighted by Jim Collins in his 2001 international bestseller, *Good to Great*. In it he says, "Those who build great organizations understand that the ultimate throttle on growth for any great organization is not markets, or technology, or competition, or products. It is one thing above all others: the ability to get and keep enough of the right people."<sup>11</sup> Successful organizations understand the importance of identifying their top talent or High Potentials. In this pursuit, they are looking for intelligent, driven, self-starting professionals with a need for high achievement; individuals who, in addition, are both creative and passionate about their fields.

One of the most significant challenges organizations face is distinguishing between High Potentials and High Performers. While distinguishing High Potentials is always difficult, doing so in highly successful organizations like USSOF, where the majority of members are High Performers, is even more challenging. It is for this reason that we chose to interview leaders and other managers of talent at very successful organizations.

The discussion in this chapter is broken down into three primary sections: why organizations identify High Potentials; what they seek in terms of traits; and how they identify High Performers with these traits.

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<sup>11</sup> Jim Collins, *Good to Great: Why Some Organizations Make the Leap ... and Others Don't* (New York, NY: Harper Collins Publishers, 2001), 54.

## **A. WHY ORGANIZATIONS IDENTIFY HIGH POTENTIALS**

At the end of the day, no matter what line of work you are in, you will never reach your full potential if your organization is structured such that your 9s and 10s [on a 1 to 10 scale with 10 being the best] are forced to work for 7s and below. A structure that does this will consistently drive top talent away as they become stifled and uninspired.<sup>12</sup>

–Bill Warner, Naval Postgraduate School Foundation President

Ultimately, Top Leaders are needed to make an organization successful. When top performers are driven out, the negative impacts are not only felt in the organization's talent pool, but also financially, given the replacement costs associated with reacquiring the knowledge, skills, and abilities that these top individuals take with them. Identification, thus, is the first step in developing and retaining the High Potentials who will someday run the company.

### **1. Good Leaders Create Good Culture**

Organizations want to identify High Potentials because strong leaders facilitate the success of the organization. Employees have two things that they can give a company: time and effort. It is up to leaders to maximize both. They accomplish this by shaping the work environment and gaining commitment and loyalty from employees.

For businesses, the bottom line is quite apparent: organizations want success, and the metric they often use to measure success is revenue production. Identifying and properly utilizing High Potentials, more often than not, equates to positive cash flow because of the talents they bring to the workplace. However, upon closer examination, it is clear that there are more factors at play than just quarterly “Profits and Losses” statements.

Successful organizations understand that if they are to evolve with the times and be profitable in both bull and bear markets, they have to make significant investments in human capital. While the identification of High Potentials is essential, their proper placement is no less important. Once High Potentials are identified and placed on their

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<sup>12</sup> Bill Warner (President, Naval Postgraduate School Foundation), interview by authors (Monterey, CA, November 5, 2011).



appropriate career tracks, organizations will devote significant amounts of time and money to developing and retaining these individuals because they understand that their return on investment is sizeable.

Effective organizations know that, if properly cared for, High Potentials will give much more than an honest day's work; these are the individuals who will create a positive work culture, embody the organization's vision, and mentor the next generation. This concept is succinctly captured by Harvard Business School professor, John Kotter, who observed, "... leadership involves producing organizational change and movement."<sup>13</sup> According to David Pendleton:

Good leadership is inextricably linked with the internal quality of the organization (its culture and climate), which is then closely associated with staff satisfaction and loyalty, ... leaders take the initiative, first creating the conditions in which people love to work and then gaining the benefit of increased employee effort.<sup>14</sup>

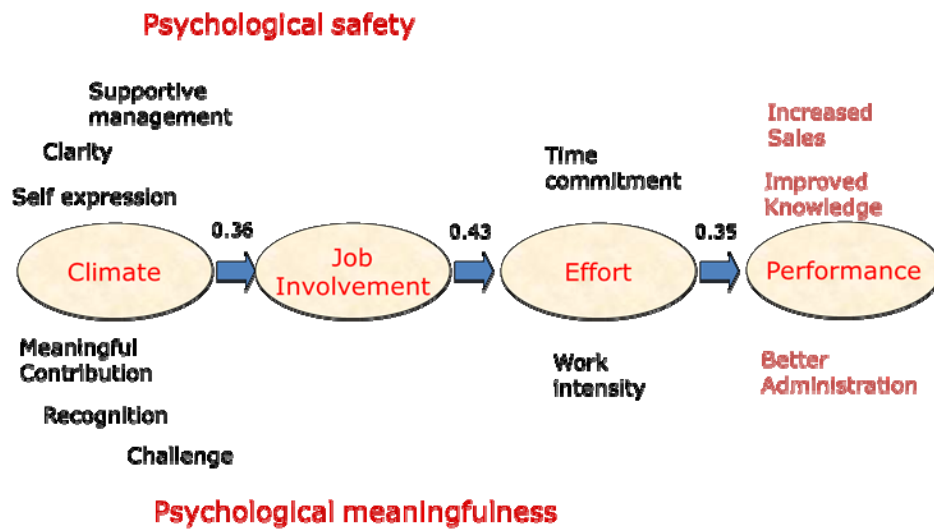
In other words, once High Potentials are identified, appropriately tasked, and properly supported, they will create the climate in which other High Potentials and High Performers will fully engage, thus elevating their organization's overall performance. These continuous and iterative processes are illustrated in the following diagrams.

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<sup>13</sup> James Kotter, quoted in David Pendleton and Adrian Furnham, *Leadership: All You Need to Know* (New York, NY: Palgrave MacMillan, 2012), 20.

<sup>14</sup> Kotter, quoted in Pendleton and Furnham, *Leadership: All You Need to Know*, 33.

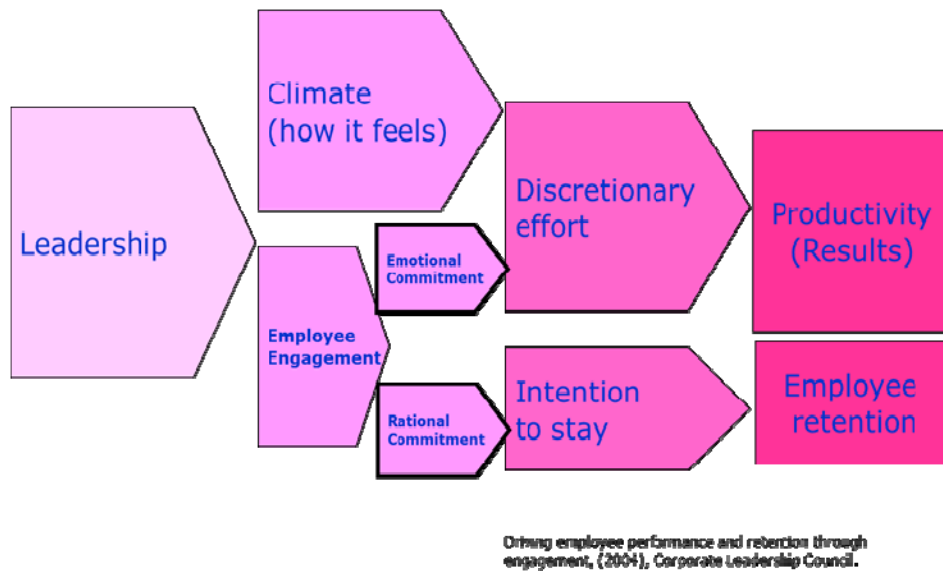
## The effect of climate on performance



On average, the researchers found that for every five percent improvement in staff satisfaction, there was an increase of 1.2 percent in customer satisfaction and ultimately profits went up by .5 percent.<sup>15</sup>

Figure 3. The Effect of Climate on Performance.

<sup>15</sup> Steven P. Brown and Thomas W. Leigh, "A New Look at Psychological Climate and Its Relationship to Job Involvement, Effort, and Performance," *Journal of Applied Psychology* 81, no. 4, (August 1996): 364.



Here we see the trickle-down effect from quality leadership to productivity and employee retention <sup>16</sup>

Figure 4. The Link Between Leadership and Employee Productivity / Retention

“If the top executive models behaviors that make people feel empowered and connected to the corporate community, then this is a good place for high-need-for-achievement professionals to be.”<sup>17</sup> Of particular note in the Corporate Leadership Council diagram above (Figure 4) is the flow from Climate and Emotional Commitment to Discretionary Effort. As previously stated, employees can only give time and effort. If the leadership properly shapes the organization’s culture, employees will not only give more of these today, but they will want to stick around and continue to give more tomorrow.

Organizations that concentrate on and invest in the less tangible attributes of their employees in addition to assessing them via quantitative metrics quickly stand out. In our interview with the senior leaders of Sullivan and McLaughlin Inc. (SullyMac), New England’s largest, single-source electrical, networking, technologies, and security contracting company, we were told, “Some employees are far different in person and on

<sup>16</sup> *Corporate Leadership Council: Driving Performance and Retention through Employee Engagement* (Washington, DC: Corporate Executive Board, 2004).

<sup>17</sup> Thomas J. DeLong, *Flying Without a Net: Turn Fear of Change into Fuel for Success* (Boston, MA: Harvard Business Review Press, 2011), 82.

the job than they are on paper. We (SullyMac) want to know the individual, and we're not afraid to give someone a chance based on a gut feeling."<sup>18</sup> Our research team heard this echoed by others: taking the measure of the individual is critical, which requires assessing employees early and often.

## **B. WHAT TRAITS ARE ORGANIZATIONS TRYING TO IDENTIFY?**

Despite representing only a small minority of the work force, High Potentials are the workhorses of their organizations. In order to place the *right* High Potentials in the *right* positions requires focusing on specific traits. The traits necessary in one organization may be vastly different from those required to excel in another company. While High Performers can generally be identified via metrics, traits useful for distinguishing High Potentials are more challenging to identify because they are often less tangible. However, successful organizations have developed methods that define the traits that suit their particular needs. Across nearly every sector of the market, we found organizations targeting critical thinking, deductive reasoning, mental sharpness, thirst for knowledge, and personal accountability. The consensus among the leaders we spoke with is that given the proper motivation and tools, identifying the desired traits within your pool of employees can be achieved.

Rockwell Collins, one of the most successful suppliers of aviation and information technologies to the aerospace industry, is the company that has the evaluation system that we felt most clearly defined which traits it was looking for. When senior leaders at Rockwell Collins sought an enhanced evaluation system, they partnered with Towers Watson, a world leader in human resources management, organizational design, and risk mitigation.<sup>19</sup> Towers Watson tailored a system to Rockwell Collins' specific culture and market demands. The consulting team took six traits that senior Rockwell Collins leaders determined to be the most important (Push Frontiers, Communicate Masterfully, Execute Flawlessly, Unleash Energy, Build Powerful Networks, and Exercise Insightful Judgment), and developed subcategories for each

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<sup>18</sup> Sullivan and McLaughlin Co, Inc., interview by authors (Boston, MA, October 12, 2011).

<sup>19</sup> Ronald W. Kirchenbaue (Rockwell Collins), phone interview by authors (November 11, 2011).

level. For example, under ‘Execute Flawlessly,’ two subcategories are ‘Business Acumen’ and ‘Customer Focus,’ which are then further paired with what is required of employees at their respective levels within the company.

Alternatively, one of our most insightful interviews was with the New England Patriots. The Patriots and their parent organization, the Kraft Group, have developed highly refined processes for identifying the individual attributes they wish to foster.<sup>20</sup> At the top of this list are critical thinking abilities and personality characteristics that are in line with those of the overall organization. The Patriots and Kraft Group are not looking for trainable individuals capable of repeating a task in a controlled environment; they instead need free thinkers who will thrive in ambiguous situations. Every Sunday, both on the field and in Gillette Stadium, the Patriots and the supporting members of the Kraft Group face countless unforeseen challenges. Much like the constant challenges faced by managing the football players on the playing field, there is the task of managing hundreds of employees who in turn are tasked with managing a stadium filled with 68,000 fans; this is a dynamic process that calls for highly adaptive personality traits.

Google’s approach to identifying traits for High Potentials is quite a bit different than the other organizations we visited. Google is uniquely focused on identifying individuals who are creative problem solvers.<sup>21</sup> It looks for this trait over others in an effort to find those individuals who will best fit into the company’s culture and mission.

Finally, one of the most common traits mentioned across the organizations visited was *character*. Character is an obvious mainstay for an organization that is going to be successful over the long-term (short-term success can clearly be achieved without an ounce of character). The Dallas Cowboys and Southwest Airlines both rank character as the most important individual trait they look for.<sup>22,23</sup> The importance of character will be elaborated on later in this chapter.

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<sup>20</sup> New England Patriots, interview by authors (Foxborough, MA, October 14, 2011).

<sup>21</sup> Google, interview by authors (Mountain View, CA, March 22, 2012).

<sup>22</sup> Stephen Jones (President, Dallas Cowboys) and Todd Williams (Director of Football Administration, Dallas Cowboys), interview by authors (Dallas, TX, November 4, 2011).

<sup>23</sup> Frederick F. Reichheld, *Loyalty Rules!* (Boston, MA: Harvard Business School Press, 2001), 80.

## C. HOW ORGANIZATIONS IDENTIFY HIGH POTENTIALS

Organizations use a number of different methods to identify their High Potentials. After completing a thorough hiring process, various means are then used to evaluate that individual's performance.

### 1. Hiring

We don't select or even seriously consider an operator unless we want the individual to be with us until one of us dies or retires.<sup>24</sup>

–Truett Cathy, Founder of Chick-fil-A

Having a proven screening and hiring process is the first step in evaluating and identifying High Potentials. Without a strong initial selection process, efforts to delineate an organization's very best can get overly attenuated. In addition to trying to screen for High Potential candidates from the start, keeping an eye on hiring a person who will fit into the organization's culture is also important: "Getting the right people onboard from the start is paramount. ... they must fit the personality and goals of the organization and contribute to the culture."<sup>25</sup>

Successful firms not only try to hire individuals who will perform for the organization, but they also attempt to hire people whom they believe will contribute to the culture of the organization. The Dallas Cowboys and Credit Suisse both clearly emphasize that they try to hire team players who demonstrate solid leadership skills; both organizations are willing to sacrifice some level of pure talent to get that kind of team player. As Douglas Paul, Vice Chairman of Credit Suisse, put it, "Personality matters, we (Credit Suisse) will accept less skill for a better people person."<sup>26</sup> Southwest Airlines likewise has character as its top hiring trait, only hiring 4% of its applicants as a result.<sup>27</sup>

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<sup>24</sup> Truett Cathy, quoted in Frederick F. Reichheld and Thomas Teal, *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value* (Boston, MA: Harvard Business School Press, 1996), 110.

<sup>25</sup> New York-Based Private Investment Firm, interview by authors (New York, NY, September 8, 2011).

<sup>26</sup> Douglas L. Paul (Vice Chairman, Credit Suisse), interview by authors (New York, NY, September 9, 2011).

<sup>27</sup> Reichheld, *Loyalty Rules!*, 80.

The fact that such prominent organizations have hiring processes that seek to identify people with strong character who will be a cultural fit is a testament to the significance of these traits and the processes that identify them.

Finding the right people to hire is also something that both Ed Hyman, CEO of International Strategy & Investment (ISI), a world leader in investment research, and Kenneth Guidry, President of Pannell Kerr Forster of Texas (PKF), a top regional accounting firm, emphasize. Mr. Hyman described hiring people who adhere to team focused principles, while Mr. Guidry seeks to hire those who he thinks will demonstrate long-term commitment to PKF.<sup>28</sup> Mr. Guidry believes his methods have yielded great success.<sup>29</sup> Without giving away any of his secrets, he combines an individual's standardized testing scores and academic performance with some key indicators of his or her personality and background in order to get a whole-person multiple. Or, as he might say, everything else being equal, he is not necessarily seeking the top Ivy League graduates to come work with him!

One interesting statistic that relates to talented, high-achieving leaders is that, on average, Harvard Business School graduates change employers three to four times in their first ten years out of school. Some executive recruiters actually encourage this kind of movement as a way to build a résumé.<sup>30</sup> But such individuals, who are after nothing more than personal gain, are exactly the type of people that Mr. Hyman and Mr. Guidry try to avoid.

## **2. Corporate Education Programs**

Once a person is hired, and has started working for an organization, he or she will ultimately be given opportunities for more education in order to move up the leadership ranks. While the subject of the use of advanced education as a development tool will be

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<sup>28</sup> Ed Hyman (CEO, International Strategy & Investment), interview by authors (New York, NY, September 9, 2011).

<sup>29</sup> Kenneth J. Guidry (President, Pannell Kerr Forster of Texas) and Annabella Green (Director of Human Capital & Administration, Pannell Kerr Forster of Texas), interview by authors (Houston, TX, November 10, 2011).

<sup>30</sup> Frederick F. Reichheld and Thomas Teal, *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value* (Boston, MA: Harvard Business School Press, 1996), 94.

described in detail in the next chapter, it is important to note here that performance in corporate schooling is often used as a way to identify High Potential candidates. An individual's ability to stand out in his or her day-to-day job is one thing, but the ability to match up to peers in a group setting is also an important component in the search for High Potentials.

For instance, Randall Stephenson, the CEO of AT&T, pays close attention to his High Performers who are chosen to attend his company's formalized education program, called AT&T University.<sup>31</sup> Over the course of their classes, Mr. Stephenson monitors the top performers in a given cohort. At certain points during the curriculum, he personally selects the top performing individuals to spend time with him in order to get to know each of them better. In doing this, Mr. Stephenson demonstrates to these individuals that whether they are considered High Potentials or not, he is committed to ensuring they receive a fair shake. At the completion of the curriculum, Mr. Stephenson and his staff select the top quarter of the class and attempt to direct some extra leadership challenges their way—another test of sorts! Then, after observing the performance of this selected group in follow-on jobs for a period of time, Mr. Stephenson further whittles down the number he is interested in. He gives each of these select individuals some personal time, maybe in the form of a dinner engagement or small group meeting. Once again, based on these personal interactions, he whittles his group down to a handful of individuals whom he decides to mentor on a personal basis. At this point, he essentially tells these newly labeled High Potentials' divisional managers that he, as the CEO of AT&T, is assuming responsibility for the High Potentials' career development and that they are now directly under his supervision. Mr. Stephenson considers this to be his initial steps in finding the person who could ultimately replace him as the CEO.

### **3. Current Performance**

While utilizing current performance to indicate future performance is a widely accepted practice, many successful organizations further refine this by factoring in the

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<sup>31</sup> Randall L. Stephenson (Chairman and CEO, AT&T Inc.), interview by authors (Dallas, TX, November 4, 2011).



identification of key personality traits. The combination of thorough personal assessments and real-time performance data yields reliable information from which to identify High Potentials. Some of the organizations we visited use fairly simple metrics for measuring individual performance. Financial trading firms, such as Morgan Stanley and Goldman Sachs, consider the sheer amount of revenue generated by an employee to be a very clear indicator of his or her value to the firm.

Yet, even organizations that can accurately analyze the financial worth of certain individuals must still be able to assess the various other traits that determine whether that person is a true High Potential. Organizations with the willingness to focus on, and invest in, the less tangible attributes of their employees—in addition to using quantitative metrics like bottom lines—quickly stand out.

#### **4. High Potentials versus High Performers: Peaks and Niches**

Successful organizations understand the pitfalls associated with “The Peter Principle,” which contends that employees will generally be promoted to their level of incompetence.<sup>32</sup> One measure successful organizations take, in order to minimize this phenomenon, is to avoid utilizing current performance as the primary indicator of future performance when making promotion decisions. Overweighting this factor can often lead to High Performers, who enjoy their work and are satisfied with their positions, being advanced to positions to which they never aspired. Instead, each High Potential and High Performer must be looked at as an individual. Not all High Potentials are capable of becoming Chief Executive Officers and not every High Performing technical expert desires a leadership position, even within his or her field of expertise.

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<sup>32</sup> Dr. Laurence J. Peter, psychologist and professor.

Our organization is very conscious about who we move up and when. We understand that not every top performer wants to move up. If a high performer has found his niche, we do not want to ruin a good thing. A smart organization couldn't entirely tie financial compensation to positions. High performing experts are high performing experts regardless of their position in the organization.<sup>33</sup>

–Doug Paul, Credit Suisse Vice Chairman

Wellington Management, a leading private global institutional asset management firm, uses an interesting method for separating High Potentials from High Performers. Wellington's executives know their organization is filled with High Performers, and that measuring employees strictly on performance within their primary field can often lead to missing key attributes.<sup>34</sup> Thus, Wellington places great emphasis on collateral duties and responsibilities as tools for development and evaluation. Employees are routinely assigned to committees, which function independently, and outside of their primary area of expertise. Wellington then uses performance at these collateral duties to see who displays personal initiative, dedication, team-building skills, and general professionalism. In the executives' view, assessment of these traits, combined with performance-based evaluations that focus on the employees' primary responsibilities, have yielded an outstanding and viable talent identification process.

## **5. Contracting a Third Party**

Trying to identify your absolute best in a top-performing group of talented people is always a challenge. Predicting which High Performers are actually High Potentials, and the next senior leaders of the organization, often requires the opinions of outside consulting firms. While our thesis team was exposed to numerous rating and evaluation systems, and many consisted of outstanding features, we found none to be more well-rounded and universally applicable than that which Towers Watson tailored to the needs of Rockwell Collins.

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<sup>33</sup> Paul (Vice Chairman, Credit Suisse).

<sup>34</sup> Mark Flaherty (Vice Chairman, Wellington Management), interview by authors (Boston, MA, October 14, 2011).

As mentioned earlier in this chapter, Rockwell Collins partnered with Towers Watson to create an enhanced evaluation system.<sup>35</sup> The Rockwell Collins human resources department, under Towers Watson's guidance, recognized that while a trait like insightful judgment is needed at every level, holding an entry-level worker to the same standards as an executive-level leader would be counterproductive. Accordingly, Towers Watson helped develop a system that does not define success in a given category as having to be the same at every level.

In addition to paying for the development of an evaluation system tailored to its specific needs, Rockwell Collins' leadership ensured its effective use. As with any smart organization transitioning to a new piece of hardware or software, Rockwell Collins took the time to properly educate its employees about this new evaluation system to ensure its proper implementation. As a take-home from this training, students were given a set of "hard cards" to keep for both refresher training and actual counseling sessions. The initial three cards from this deck, which describe a bit more of the process, are seen below in Figures 5–7.

Though the introductory paragraphs on these three cards may read as though they are too basic for leaders who already understand the critical nature of effective feedback, this highlights how useful they are. Understanding that leaders who inherently grasp such concepts are the exception to the rule, Towers Watson and Rockwell Collins developed a process that educates as it evaluates. By starting with broad characteristics or qualities, Towers Watson's aim was to provide Rockwell Collins with an evaluation system that would prove as applicable in the boardroom as in the mailroom.

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<sup>35</sup> Ronald W. Kirchenbaue (Rockwell Collins), phone interview by authors (November 11, 2011).

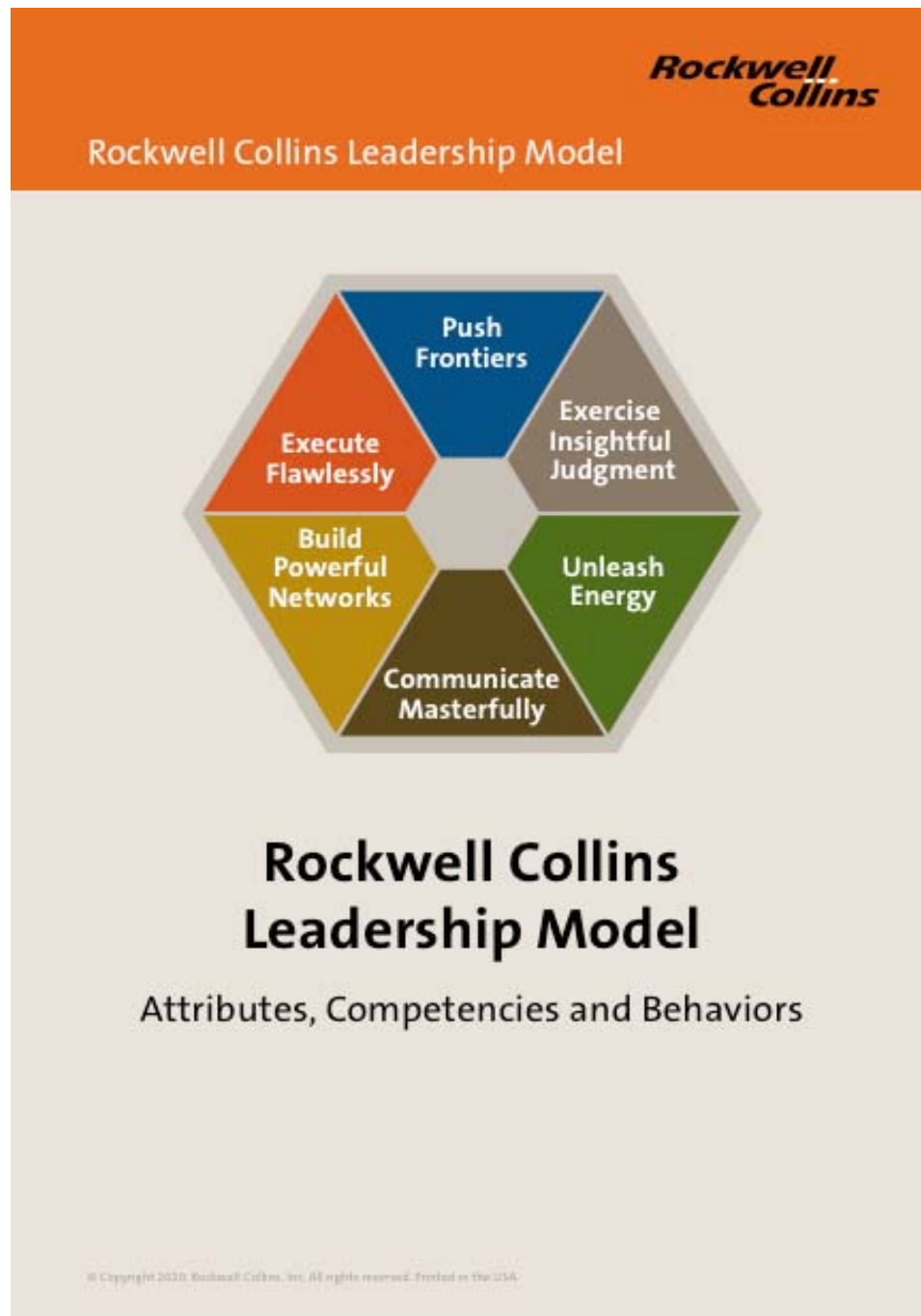


Figure 5. Rockwell Collins Leadership Model (Attributes, Competencies and Behaviors)

## Rockwell Collins Leadership Model

### Leadership Model Components

As we strive to become a more global and highly integrated company, we must have more, and more capable, leaders at every level in the organization. The Rockwell Collins Leadership Model has recently been enhanced to support this objective.

The model consists of six aspirational characteristics, or qualities, referred to as the "attributes of leadership."



*Rockwell Collins Leadership Model*

Since the Leadership Model is used to select, develop, evaluate and reward leadership capabilities across our company, we have defined the attributes through competencies and behaviors. In this process, Rockwell Collins partnered with Towers Watson to utilize their globally researched and validated competency library, called CompetencySource.

Using this resource, Rockwell Collins tailored the competencies and behaviors to reflect our company's unique leadership requirements. While the six attributes in the model are relevant to all levels of leadership, the competencies and behaviors have been adapted to reflect the expectations for each level of leadership in our company:

- Individual Contributor
- Entry-Level Leader (leads individual contributors)
- Mid-Level Leader (leads other leaders)
- Matrix Leader (leads without direct management responsibility)
- Executive-Level Leader (leads the enterprise)

Figure 6. Rockwell Collins Leadership Model Components

## Rockwell Collins Leadership Model

### Leadership Model Competencies

Competencies have been associated to each attribute in the Leadership Model. Competencies are a collection of knowledge, skills, and abilities that are necessary for every leader to optimize his/her performance. Behaviors have been written to further clarify each competency; the behaviors are level-specific to appropriately relate to the various levels of leadership.

These materials contain a reference card for each leadership attribute and a reference card for each competency associated to the six attributes of leadership, as shown below.



### Using the Leadership Model

Leaders and employees are encouraged to reference the Leadership Model and regularly use its contents to:

- > Define and clarify expectations and evaluate performance.
- > Identify strengths and opportunities for development in current and future roles in the organization.

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Figure 7. Rockwell Collins Leadership Model Competencies

## 6. Conclusion

The bottom line for identifying High Potentials is that this is but the first phase in the continuous, and iterative, process of identifying, grooming, developing the loyalty of, and ultimately retaining, future Top Leaders. In order to achieve success all the way along this path, companies must view these phases as mutually supportive. Regardless of the business being run, the margin for error at the top is extremely small and the unnecessary loss of even one High Potential can be the difference between success and failure. In *Loyalty Rules!*, Frederick Reichheld captures the importance of identifying wisely by describing how leaders discriminate for character, capability, and performance. He then emphasizes how important it is for leaders to remain loyal only to those who help reinforce these traits within the company.<sup>36</sup> Again, identifying High Potentials is hard work, and requires senior leaders to invest a substantial portion of their time to do it adequately.

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<sup>36</sup> Reichheld, *Loyalty Rules!*, 74.

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### **III. GROOMING HIGH POTENTIALS AND THE DEVELOPMENT OF LOYALTY TO AN ORGANIZATION**

This chapter is about the grooming and development of High Potentials, and the ultimate benefits of doing so. Before diving into the data drawn from corporate interviews, it is absolutely necessary to point out how this topic fits into the broader frame of our thesis: without proper development, even the most talented and dedicated people will become stagnant and fail to reach their potential. Likewise, grooming individuals for future leadership within an organization is one of the key factors in retaining High Potentials. Or, as Ronald Kirchenbaue of Rockwell Collins says, “Nothing is more important to the success of an organization than taking care of its High-Potentials.”<sup>37</sup>

The biggest takeaway from our research on talent development—emphasized again and again in our interviews—is the need to make development part of an organization’s culture. Because it takes time to see results, the benefits of having a strong leadership development strategy can seem amorphous. Making leadership development a priority is difficult; nevertheless, the most effective grooming and development practices go well beyond programs designed by the human resources department. They need to be embraced by the entire leadership of the organization, and be fully understood and implemented from the lowest line manager to the chief executive officer. Only once the development of subordinates is made a strategic imperative, and not just a collateral duty, will the organization reap the benefits of an effective development strategy.<sup>38</sup> In this chapter, we document how many of the organizations we visited have attempted to tackle this issue.

High Potential development can be categorized as either formal or informal. Formal development practices involve programs designed to train and educate people on pre-planned topics. Such programs include education at universities, third party consulting courses, in-house development programs, and formal mentorship programs.

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<sup>37</sup> Kirchenbaue (Rockwell Collins).

<sup>38</sup> Morgan W. McCall, Jr., *High Flyers* (Boston, MA: Harvard Business School Press, 1998), 193.

Informal development practices include on-the-job training, stretch assignments, informal mentoring relationships, and many other non-standardized practices that capitalize on events to develop talent in an organization. While many of the organizations and companies that we visited have both formal and informal development programs, others had few formal programs, instead relying on their culture to set the environment for continual development.

## **1. Loyalty from the Top Down**

Before diving into the details of how the organizations we visited develop their High Potentials, we should first note that the CEOs, Presidents, and Top Leaders whom we interviewed all strongly endorsed the importance of personally engaging in the development process. The sheer amount of time that senior leaders spent on this issue would probably surprise most people. They did us. The positive outcomes that come from it are noted throughout this thesis.

In the 1990s, *The Wall Street Journal* pronounced that “The social contract between employers and employees, in which companies promise to ensure employment and guide careers of loyal troops, is dead, dead, dead.”<sup>39</sup> Every Top Leader we spoke with wants to dispel this myth. While this generalization might describe a significant number of companies in the U.S., it does not in any way describe what we saw or heard during our research. As mentioned, one of the most interesting things we observed was the extent to which the Top Leaders of successful organizations strive to ensure that their employees *are* taken care of, and that their High Potentials *are* properly groomed.

The CEO of AT&T, Randall Stephenson, spends at least 25% of his time personally managing his High Potentials. He describes his top young leaders as “corporate property,” and emphasized to us that he is personally responsible for their career development.<sup>40</sup> In effect, he said that the CEO, not the various divisional leaders, “owns” High Potentials. As described in the last chapter, in addition to managing his

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<sup>39</sup> Reichheld and Teal, *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value*, 25.

<sup>40</sup> Stephenson (Chairman and CEO, AT&T Inc.

High Potentials' careers, Mr. Stephenson is also responsible for helping identify these individuals in the first place. This personal interest by the CEO in identifying talent and then ensuring that High Potentials are properly developed demonstrates a strong commitment to these individuals. For High Potentials to know that the most senior leader in the company personally cares about their future is a significant statement in and of itself. These efforts demonstrate corporate loyalty that resonates through the ranks.

Both Kirk Hachigian, the Chairman and CEO of Cooper Industries, a global electrical products manufacturer, and his Vice President for Corporate Human Resources, Heath Monesmith, estimate that Mr. Hachigian dedicates nearly 45% of his time to managing his personnel.<sup>41</sup> To further drive home his investment in people, Mr. Hachigian described how he wakes at 4 A.M. every day so that he can catch up with leaders in other time zones. His reasoning is that "personal connection matters. You must touch people; it is free, so why not do it." In addition to phone communication, he manages a high-paced schedule that has him traveling to each of the 68 Cooper Industries plants once every two years (three plants each month). Mr. Monesmith credits this type of intense and consistent personal attention for the company's leaders feeling loyal to the corporation.

A final benefit that can be seen from the significant amount of personal energy that Top Leaders expend on managing High Potentials' careers is the example this sets. A High Potential who experiences hands-on development and mentorship by respected senior leaders has a front-row seat to a superb demonstration of leadership. Ideally, that High Potential should then do the same on his or her way up the corporate ladder.

... [T]he fundamental job of a leader is to be a role model, an exemplary partner whose primary goal is to help people grow to their fullest human potential. To build loyalty, they say, you must first be loyal to others by helping them build relationships on the right principles. Then your leadership actions must not only reinforce these principles, but embody them.<sup>42</sup>

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<sup>41</sup> Kirk S. Hachigian (Chairman and CEO, Cooper Industries) and Heath Monesmith (Corporate Human Resources Vice President, Cooper Industries), interview by authors (Houston, TX, November 11, 2011).

<sup>42</sup> Reichheld, *Loyalty Rules!*, 18.

To more thoroughly examine development, we will borrow the Center for Creative Leadership's list of "strategies for creating developmental experiences." These include developmental job assignments, developmental relationships, structured development programs, and multi-rater assessments.<sup>43</sup>

#### A. DEVELOPMENTAL JOB ASSIGNMENTS

Challenging jobs, such as stretch assignments<sup>44</sup> and turnaround projects<sup>45</sup>, are used by many organizations to develop their High Potential employees. Barry Leskin, president of Talent Management Consulting, explains that you "need to develop adversity by putting guys in tough situations and diversity by putting guys in positions out of their comfort level."<sup>46</sup> The aim of using developmental jobs is to expose High Potentials to other areas of the company that are outside their area of functional expertise. Executives at SullyMac "use stretch assignments to put people in stressful situations to see how they perform."<sup>47</sup> Likewise, Mr. Stephenson of AT&T recommends placing High Potentials in positions where they are expected to fail and learn from their experiences. He reiterates that the purpose of placing High Potentials in challenging jobs is "not to assess success, but rather [to see] how they respond to tough situations and grow as a result of it."<sup>48</sup> He also believes talented individuals undergoing stretch assignments are "better after they fail"<sup>49</sup> because they have a better understanding of, and are more comfortable dealing with, risk from that point on. The following paragraphs offer examples of how various organizations use developmental job assignments to groom their High Potentials.

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<sup>43</sup> David Berke, Michael E. Kossler, and Michael Wakefield, *Developing Leadership Talent* (San Francisco, CA: Pfeiffer, 2008), 59.

<sup>44</sup> A **stretch assignment** is one that requires a worker to take a leap beyond his comfort zone and, in the process, pick up new skills.

<sup>45</sup> A **turnaround project** is one that is headed in the wrong direction and needs corrective actions to get it back on track.

<sup>46</sup> Barry Leskin (President, Talent Management Consulting), interview by authors (Monterey, CA, September 4, 2011).

<sup>47</sup> Sullivan and McLaughlin Co, Inc.

<sup>48</sup> Stephenson (Chairman and CEO, AT&T Inc.)

<sup>49</sup> Stephenson (Chairman and CEO, AT&T Inc.)

The New England Patriots favor cross-functional transfers.<sup>50</sup> These transfers are most frequently used by the Patriots when someone has “hit their plateau” within their current department, but has the potential to move higher in the organization. One of our interviewees directly benefited from this method. Jim Nolan was recruited by the Patriots due to his background in finance and accounting. After a few years in the organization, he was put in charge of the finance department. The Patriots’ executives realized that he was capable of assuming greater responsibility; however, since he only had expertise in the finance department, they needed to broaden his range of expertise. To do so, the Patriots assigned Mr. Nolan to the communications department where, despite his lack of technical experience, he excelled. This performance signaled to senior leaders that he had the ability to quickly learn how to manage departments with which he was not fully familiar. The Patriots were impressed and immediately promoted Mr. Nolan to head the operations department—which oversaw his two previous departments, as well as several others. This is a good example of what the business world calls a stretch assignment.

The Patriots organization took a risk by transferring Mr. Nolan to an extremely challenging job in a department outside his field of expertise. By doing this, his bosses were able to broaden his experience base, expose him to more of the organization, and further assess his performance. The move paid off for both the Patriots and Mr. Nolan, and was not the only time the Patriots benefited from taking such a risk. Pushing people outside their comfort zone and letting them grow is an intentional leadership development strategy they use. One might even go so far as to say the Patriots have built stretch assignments into their culture.

Chevron is another company that uses challenging assignments to develop its future leaders. For the most part, as a result of the technical demands of their business, the members of Chevron’s Drilling and Completions Division stay within their technical field throughout their careers. However, one way that Chevron diversifies its future High Potentials is to assign them to serve a tour in the company’s mentorship program. While this program will be described in more detail later in the chapter, it exposes already

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<sup>50</sup> New England Patriots.

proven performers to other divisions in the company.<sup>51</sup> During this two-year, travel intensive program, these individuals (who Chevron calls ‘sponsors’) will meet individuals throughout Chevron’s divisions and serve as their mentors. The sponsor and mentoree will discuss future job opportunities, professional goals, and family needs in an effort to ensure that employees are happy with their careers. The sponsor job is obviously quite different from the High Potential’s normal engineering work and distinctly outside his or her comfort zone. In addition to introducing High Potentials to employees throughout the corporation, sponsors get to learn about Chevron’s corporate operations and the operations of other divisions throughout the company. This grants High Potentials a much better understanding of how the entire corporation operates, which will be of assistance when they move to their next managerial position. Chevron’s thinking is that with their newly acquired human resource skills, High Potentials should become more effective managers.

## **1. Job Placement**

Developmental jobs also positively affect a High Potential’s loyalty to the organization. According to Mike Monahan, the leader of the Boston-based labor union International Brotherhood of Electrical Workers 103, “Good placement programs are important. Marrying up guys with their next job is extremely important because it makes your organization more effective and it shows the individual that you are looking out for them.”<sup>52</sup> Top Leaders, especially those with families, need to know what their career paths look like. For this reason, companies strive to share this information with High Potentials.

Wellington Management does this with a mentorship program that assigns two people from outside a High Potential’s department to meet with him or her at a minimum of four times a year.<sup>53</sup> The discussions that ensue are credited with strengthening the

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<sup>51</sup> Mike Haas, Steve Hassmann, and James Barron (Chevron, Drilling and Completions Division), interview by authors (Houston, TX, November 11, 2011).

<sup>52</sup> Mike Monahan (International Brotherhood of Electrical Workers 103), interview by authors (Boston, MA, October 12, 2011).

<sup>53</sup> Flaherty (Partner, Wellington Management).

loyalty between a High Potential and the company as a whole. Legal Sea Foods, often rated the #1 seafood company in the U.S., also uses specific job assignments as a way to motivate and reward its High Potentials.<sup>54</sup> It has a practice of moving its top managers to more desirable restaurant locations throughout the eastern seaboard to present them with new and different challenges. From Legal Sea Foods' perspective, these developmental job assignments not only benefit the company by broadening the scope of a High Potential's knowledge, but they can also build loyalty through challenging that individual, thereby improving the likelihood that High Potentials will stay with the company for a longer period of time.

## **B. DEVELOPMENTAL RELATIONSHIPS**

Relationships are extremely important to the development of High Potentials. As evidenced by Mr. Hachigian of Cooper Industries starting his business day at 4 A.M. in order to connect with his Top Leaders and High Potentials, senior level attention to these critical relationships matters. Again, Mr. Hachigian feels that since personal connections cost nothing except time, they should be the cornerstone of a Top Leader's relationship with his High Potentials. In fact, the Corporate Council's Leadership Survey of 2001 found that developmental relationships are more important to developing leadership talent than education and job experiences.<sup>55</sup> It is thus not surprising that most of the organizations that we visited have either formal or informal mentorship programs, or both. Most focus on career development, succession planning, and retention.<sup>56</sup> The creation of these formal and informal developmental relationships is critical for cultivating a career development and succession management plan. We should note that these relationships also have the ability to significantly increase a High Potential's loyalty to the company, which obviously improves that person's desire to remain with the organization.

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<sup>54</sup> Roger Berkowitz (CEO, Legal Sea Foods), interview by authors (Boston, MA, October 13, 2011).

<sup>55</sup> David Berke, Michael E. Kossler, and Michael Wakefield, *Developing Leadership Talent* (San Francisco, CA: Pfeiffer, 2008), 61.

<sup>56</sup> Christopher Conway, *Strategies for Mentoring* (Chichester, England: John Wiley & Sons Ltd., 1998), 59–63.

## **1. Mentor—Mentoree Relationship**

Several of the organizations where we conducted interviews fostered formal developmental relationships through mentorship programs to provide employees with “a safe way to communicate ideas and help connect people to the overall organization.”<sup>57</sup> We heard about various methods for choosing and pairing mentors with mentorees. The consensus was that mentors should come from outside the mentoree’s department or division and should not have regular contact with the mentoree’s direct manager.<sup>58,59,60</sup> The goal is to establish trust and encourage openness in the relationship.<sup>61</sup> Also, mentors should be carefully selected and paired so that High Potential mentorees do not end up being paired with less impressive mentors. Since such a situation has the potential to devalue the mentorship program and frustrate the mentoree.

For instance, NASA has what it calls the YODA Mentorship Program.<sup>62</sup> YODA stands for “Your Opportunity to Develop Another.” The mentors are generally a level or two above the mentorees and from different departments. Their job is to answer all of the mentoree’s questions and to provide him or her with an experienced perspective. Mentors and mentorees might meet monthly over lunch or exchange emails and phone calls. Because the YODA Mentorship Program was developed strictly for the mentoree’s benefit it plays no role in evaluation. This, too, assists with a much more forthcoming relationship between the mentoree and the mentor.

Informal developmental relationships are also used by most of the organizations we visited. Executive officers can play crucial roles in the development of future leadership talent. As has already been described, some of the CEOs we interviewed invested a large portion of their time developing relationships and mentoring their High

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<sup>57</sup> Vertex Pharmaceuticals, interview by authors (Boston, MA, October 13, 2011).

<sup>58</sup> Vertex Pharmaceuticals.

<sup>59</sup> Flaherty (Partner, Wellington Management), interview by authors.

<sup>60</sup> Hachigian (Chairman and CEO, Cooper Industries) and Monesmith (Corporate Human Resources Vice President, Cooper Industries).

<sup>61</sup> Berkowitz (CEO, Legal Sea Foods).

<sup>62</sup> NASA Human Resources Management Office, interview by authors (Houston, TX, November 9, 2011).



Potentials.<sup>63,64</sup> By dedicating time to junior employees, these CEOs are not only professionally developing their rising stars, but are also building High Potentials' loyalty toward the organization. This contributes to an organizational culture which places its emphasis on talent development.

## **2. Boss—Direct Subordinate Relationship**

Like formal mentors and executive officers, direct managers also help develop talent. According to the Corporate Leadership Council's 2001 Survey mentioned above, the relationship between an employee and his or her direct manager is that individual's most important relationship.<sup>65</sup> Unlike mentors, bosses do not need to serve as a constant sounding board for their subordinates in order to effectively develop them. Instead, due to their sustained interaction, bosses have a perfect opportunity to groom their best people by focusing on development. An organization with a successful succession management plan ensures managers recognize the importance of developing their people. When this is done it provides the organization with plenty of groomed talent ready to step into key positions as these open up.<sup>66</sup> Managers also effectively model everything from a strong work ethic to key communications skills.

### ***a. Transparency in the Relationship***

Development relationships depend as much on transparency as they do on sincerity. Mr. Reichheld preaches that it is critical to "Listen hard, talk straight—long-term relationships require honest, two-way communication and learning."<sup>67</sup> Companies such as Legal Sea Foods, AT&T, Wellington, Goldman Sachs, and the New England Patriots (just to name a few) put a premium on being transparent with High Potential employees; they deliberately inform individuals about their anticipated future prospects

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<sup>63</sup> Stephenson (Chairman and CEO, AT&T Inc).

<sup>64</sup> Donald J. Tomnitz (President and CEO, D. R. Horton Homes), interview by authors (Dallas, TX, November 4, 2011).

<sup>65</sup> Berke, Kossler, and Wakefield, *Developing Leadership Talent*, 66.

<sup>66</sup> Christopher Conway, *Strategies for Mentoring* (Chichester, England: John Wiley & Sons Ltd, 1998), 59.

<sup>67</sup> Reichheld, *Loyalty Rules!*, 17.

within the organization. According to Mr. Paul at Credit Suisse, “We make every effort to ensure that our people know where they stand.” Obviously when this is done it represents a first step in ensuring that a High Potential feels that he or she is recognized for his or her efforts.

In addition, it is also important that the High Potential’s spouse understands what is in store. Conveying this information is vitally important to ensuring that both the High Potential and his or her family feel they are important to the success of the company. The relationship between a High Potential’s family and the company’s Top Leaders may be just as important as the employee’s relationship with those same leaders. Barry Leskin of Talent Management Consulting emphasized the importance of ensuring that spouses understand that they are part of the High Potential “program.” He feels that without having the family’s backing, the commitment required to become a long-term High Potential will be hampered.<sup>68</sup>

An interesting example of how a CEO deals with the issue of transparency is Randall Stephenson of AT&T, who personally invites High Potentials to his office and tells them that they are top performers and vitally important to the future of the company. Not only does getting a call to meet the CEO make a distinct impact on a person, but Mr. Stephenson feels that this direct method of communicating increases loyalty among the High Potentials he calls.

#### ***b. Toxic Leaders***

A final issue to be wary of when discussing relationships between Top Leaders in an organization and their High Potentials is what is termed “toxic leadership.” Managers who encourage their people to continually learn and develop new skills are invaluable to an organization; conversely, those who hoard their best people to make themselves appear more competent are known in the business world as “toxic leaders.” Toxic leaders often blunt the effectiveness of any leadership talent development process and ultimately drive High Potentials away from the organization. This point was noted in

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<sup>68</sup> Leskin (President, Talent Management Consulting).

Chapter II where, in the epigraph Mr. Warner, President of the Naval Postgraduate School Foundation, describes the negative impacts that result when High Potentials are working for inferior leaders.

### **C. STRUCTURED DEVELOPMENT PROGRAMS**

Most of the larger organizations we visited utilize structured development programs to groom their High Potentials, such as formal education at universities, third-party consulting courses, and in-house development programs. The material covered in structured development programs typically revolves around leadership development, technical development, and life skills. As previously noted, AT&T runs a program called AT&T University which educates its key employees in all three categories.<sup>69</sup> Course titles include “Leadership Development Program,” “Network Engineering Technical Development Program,” and “The Sales Edge.”<sup>70</sup> AT&T University gives AT&T’s future leaders access to professors and skillsets that are not available to everyone in the company. Chevron also has a structured development program, the Chevron Advanced Leadership Program (CHAMP),<sup>71</sup> designed for High Potentials moving up the business ladder.

Cooper Industries partnered with a prominent local university to develop Cooper U at Rice University.<sup>72</sup> This consists of a two-week-long course for top performing division managers, mid-level leaders, and senior level executives. The first week focuses on business, finance, and human resources. During the second week attendees complete a special project related to their course work. Leadership development is not the program’s only purpose. Cooper Industries also uses Cooper U to assess its employees for future positions and to gauge their commitment to personal development.

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<sup>69</sup> Stephenson (Chairman and CEO, AT&T Inc).

<sup>70</sup> “AT&T University,” (n.d.), <http://www.maddash.net/videos/att/university>.

<sup>71</sup> Haas, Hassmann, and Barron (Chevron, Drilling and Completions Division).

<sup>72</sup> Hachigian (Chairman and CEO, Cooper Industries) and Monesmith (Corporate Human Resources Vice President, Cooper Industries).

## D. MULTI-RATER ASSESSMENTS

The final topic of this chapter is the use of 360 Degree Feedback assessments to develop High Potentials. This form of assessment solicits input from an individual's managers, peers, and subordinates, hence the "360 degrees." Many of the organizations we visited use this method to help their leaders identify their strengths and weaknesses. After the assessments individuals usually have better self-awareness and are able to focus on certain aspects of their performance. We should point out that these assessments are for individual development purposes only, they are not used as tools for promotion or bonuses.<sup>73</sup>

During our interviews we heard both positive and negative comments about 360 degree assessments. The major argument against their use came from Top Leaders of a financial firm. In the firm's view, 360 degree assessments allow too much input from people with no fear of attribution. Of course, if the assessments are not being used for performance evaluation or promotion purposes, it is hard to see why attribution matters. Since the results will only be seen by the individual in question, not his or her boss, worrying about individuals gaming the system makes little sense. The use of multiple raters should also dampen the effect of biased feedback from a single person.<sup>74</sup> As Richard F. Walsh of Walsh and Associates Executive and Leadership Coaching points out, probably the best way to use the 360-degree feedback tool is to have the High Potential pick his or her own raters with the help of the human resources department or a coach.<sup>75</sup> Next, the coach and High Potential together develop questionnaires tailored to each set of raters. For example, questions posed to peers might seek to measure teamwork ability; questions posed to subordinates might deal with professionalism. Figure 8 depicts possible topics for feedback from each group of raters. After drafting the questions, the High Potential then presents the list of raters and questionnaires to his immediate boss to gain his or her approval. With that, the assessment questionnaires are distributed to all of

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<sup>73</sup> Haas, Hassmann, and Barron (Chevron, Drilling and Completions Division).

<sup>74</sup> Berke, Kossler, and Wakefield, *Developing Leadership Talent*, 72.

<sup>75</sup> Richard F. Walsh (Principal, Walsh and Associates Executive and Leadership Coaching), interview by authors (Houston, TX, November 10, 2011).

the raters. Once all questionnaires are completed, they are turned in to the human resources representative or coach. The coach and the High Potential then discuss the feedback in order to create a development plan. This step is extremely important and the human resources representative or coach needs to have training in interpreting 360-degree feedback data. The High Potential will finally then present his or her self-development plan to his or her manager and subordinates. This final step is critical because the 360-degree feedback tool is most effective when it is an open process. Formulating a self-development plan demonstrates that the High Potential understands which areas need improvement and commits him or her to fixing those shortfalls.

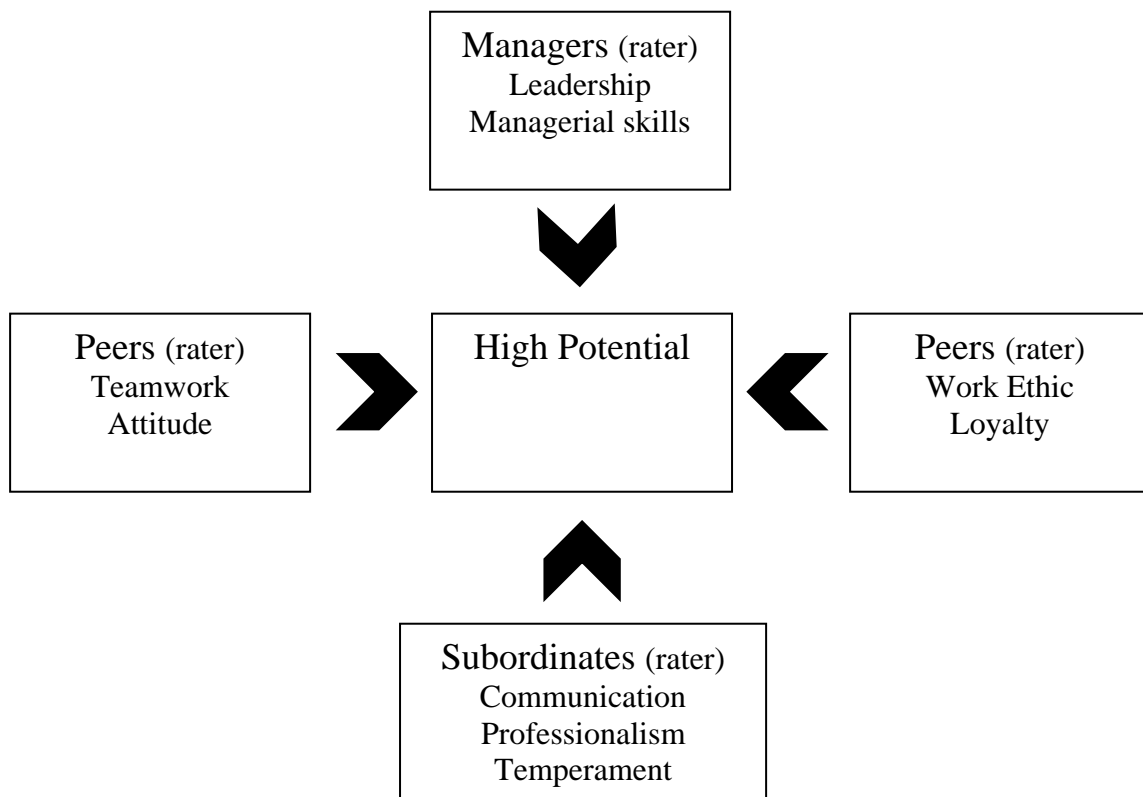


Figure 8. Example Feedback Topics for Each Group of Raters

## 1. Conclusion

Developmental job assignments, developmental relationships, structured development programs, and multi-rater assessments are all important in the grooming of High Potentials. An organization with a culture focused on development will

intentionally expose key individuals to these methods and focus them on the significance of development throughout their careers. Such a focus also signals to High Potentials that the organization is looking out for their best interests. Or, as John Sheptor, CEO of Imperial Sugar suggests regarding retention, it “is a function of development. If you don’t have a good development program, you simply won’t retain your talent.”<sup>76</sup>

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<sup>76</sup> John Sheptor (CEO, Imperial Sugar) and George Muller (Human Resources Vice President, Imperial Sugar), interview by authors (Sugar Land, TX, November 10, 2011).

## **IV. RETENTION OF HIGH POTENTIALS**

While the development process is one effective retention tool, it is not nearly sufficient on its own. Reward-based incentives are also required in order to demonstrate to High Potentials that the leadership understands their importance to the company. The intent of this chapter is to present some of the innovative ways that corporate America attempts to retain its High Potentials—while not having to rely on higher pay alone to do so. After briefly discussing why the retention of employees matters, we will present some methods companies use to demonstrate their loyalty to an individual. Companies make use of everything from purely financially based incentives to much more creative concepts that cater to a High Potential’s life outside of the workplace. Paying attention to both methods is critical because a purely financial approach is clearly not feasible for the U.S. military.

### **A. WHY RETENTION MATTERS**

As described in Chapter II, the High Potential who remains at a company receives extensive growth and training opportunities throughout his or her career. This is a win-win situation, as investment in that High Potential will pay off with long-term returns generated by that High Potential’s performance, especially as he or she climbs to high levels of leadership within the company. Conversely, when a High Potential decides to leave, the company loses someone in whom it has invested significant resources. In purely financial terms, the loss is three-fold: the organization loses its investments of money and time in that individual; it loses benefits from the training that the High Potential received; and finally, it must spend money on re-hiring, and re-training a new employee. As Frederick Reichheld and Thomas Teal observe, the money “... saved in reduced recruiting and training costs can be invested somewhere else.”<sup>77</sup>

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<sup>77</sup>. Reichheld and Teal, *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value*, 91.

The Bain & Company economic model shown below highlights the areas that are positively affected by the long-term retention of employees: recruitment investment (hiring), training, efficiency, customer selection, customer retention, customer referral, and employee referral.

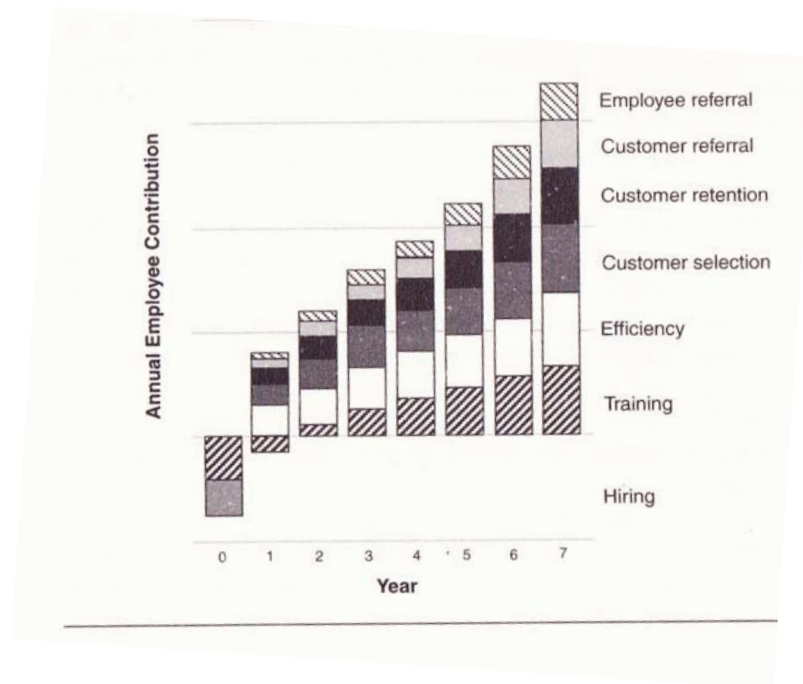


Figure 9. Why Long-term Employees Create Value<sup>78</sup>

Again, from a financial point of view alone, retaining your employees is important.

One of life's realities is that most people work for some form of reward, which enables them to maintain a certain style of life. Expectancy theory, developed by Victor H. Vroom in 1964, proposes that a person's behavior results from expectations about the outcomes of that behavior.<sup>79</sup> Basically, an individual expects that his or her efforts will lead to a desired level of performance, and that the performance will then lead to valued outcomes. Another way to describe this is, "incentive compensation systems attempt to

<sup>78</sup> Reichheld and Teal, *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value*, 100.

<sup>79</sup> Ruth Kanfer, Gilad Chen and Robert D. Pritchard, eds., *Work Motivation: Past, Present, and Future* (New York, NY: Routledge Taylor & Francis Group, 2008), 369.



align employee interests with those of the organization by making compensation contingent on particular outcomes or behaviors.”<sup>80</sup> This theory clearly supports the use of individually targeted incentive plans to convince High Potentials to stay with an organization.

No organization’s incentive plans should be entirely financially based. An organization’s Top Leaders typically have many tools at their disposal to mitigate the purely financial costs of an incentive structure, to include creative pay and bonus structures, enhanced retirement options, and family-focused incentives. Retention focused tools obviously cost some amount of money, but the creative use of the programs listed below allow an organization to retain more of its High Potentials at a lower financial cost—which is clearly critical for the discussion to come in Chapter V about NSW and USSOF.

## **B. METHODS USED TO INCREASE RETENTION**

To reiterate the point that the retention of High Potential employees is an effective corporate strategy, we will cite Chick-fil-A as an example of a highly successful company that prides itself on retaining its best employees. Since its inception in 1967, Chick-fil-A has grown from a single store to 1,615 locations and has annual sales of over \$4.1 billion.<sup>81</sup> To reach this level, Chick-fil-A has developed a variety of methods to encourage its employees to not only perform, but to do so for long periods of time. “In an industry where annual turnover in store managers runs between 30 and 40 percent, Chick-fil-A loses only 4 to 6 percent of its operators every year, almost none of them from the top two-thirds in performance.”<sup>82</sup> One reason is that Chick-fil-A puts a premium on loyalty. The rest of this chapter will describe how Chick-fil-A and other successful companies retain their High Potentials.

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<sup>80</sup> Kanfer, Chen, and Pritchard, eds., *Work Motivation: Past, Present, and Future*, 368.

<sup>81</sup> Chick-fil-A. “Company Fact Sheet, 2012, <http://www.chick-fil-a.com/Company/Highlights-Fact-Sheets>.

<sup>82</sup> Reichheld and Teal, *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value*, 109.

## **1. Trust**

Fundamental to retaining talented leaders is the development of a trusting relationship between a High Potential and his or her Top Leaders. For a High Potential to give up outside opportunities in order to remain, he or she must have faith in the organization's leaders. As mentioned at length in Chapter III, the sheer amount of attention that CEOs, presidents, and other Top Leaders devote to their High Potentials is the first step towards developing a trusting relationship. Just as senior leaders must directly influence the identification and development of High Potentials, they must be equally attentive to how their organization works to retain them. The fact that Mr. Stephenson of AT&T spends over 25% of his time managing his High Potentials, and Mr. Hachigian of Cooper Industries spends 45% of his time managing his people, is a testament to the importance of this issue.

## **2. Monetary Incentives**

Without question, reasonable pay is an essential part of the retention solution. In corporate America, the most common type of reward mechanism used to retain High Potentials is some form of monetary compensation. The idea that "superior compensation equals superior loyalty," is a proven concept that helps retain some High Potentials.<sup>83</sup> As James Ball, a managing director at Morgan Stanley puts it, "You will never retain top performers if they do not feel that they are being properly compensated for their efforts. There are many ways to compensate your people other than monetarily but, at the end of the day, perks and pats on the back don't pay the bills."<sup>84</sup> This supports the argument that monetary incentives *do* work.

Alternatively, companies that are not able to pay High Potentials what they think they deserve will often lose them. "High rates of defection are the norms for star performers since few firms provide sufficient growth opportunity or financial

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<sup>83</sup> Reichheld and Teal, *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value*, 106.

<sup>84</sup> James Ball (Managing Director, Morgan Stanley), interview by authors (New York, NY, September 8, 2011).

incentive.”<sup>85</sup> To counter this, companies like Chick-fil-A use above average pay to boost employee loyalty. Chick-fil-A pays its managers 30-50 percent more than the industry average. Its better performing managers earn over \$100K per year—“which is unheard of in the fast food industry.”<sup>86</sup> Essentially Chick-fil-A pays its managers a base salary and then incentivizes them with a share of the store’s profits. As already indicated, this model has aided Chick-fil-A’s rapid and continual growth. Mr. Owen West described an even starker example at Goldman Sachs, “There are no retirement plans, no perks, no free dinners, no baseball tickets, just good pay!”<sup>87</sup>

*a. Pay for Performance, Not Seniority*

To be a loyalty leader you must retain and reward only the partners who perform!<sup>88</sup>

—Frederick Reichheld

A different method of ensuring that High Potentials are paid what they deserve can be found in paying for performance—rather than for seniority alone. As far as Morgan Stanley, Goldman Sachs, and Atlantic Dive Supply (ADS) are concerned, a job title or position should not limit the amount of money that a High Potential can make. All three companies have structured their payment plans to reward high performing employees based mainly on how much their efforts contribute to overall profits. Paying for performance is effective because it allows Top Leaders to incentivize only those who bring increased value to the company. Since companies are not limited to paying people based on seniority alone—unlike the NSW Officer Continuation Pay program<sup>89</sup>—they

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<sup>85</sup> Reichheld, *Loyalty Rules!*, 84.

<sup>86</sup> Reichheld and Teal, *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value*, 109.

<sup>87</sup> Owen West (Goldman Sachs), interview by authors (New York, NY, September 8, 2011).

<sup>88</sup> Reichheld, *Loyalty Rules!*, 84.

<sup>89</sup> ***Special Warfare Officer Continuation Pay***: Although referred to as a pay, this incentive is really a bonus offered to the SEAL officer community. The community has offered Officer Continuation Pay (OCP) since 1999 to retain officers with 6–14 Years of Service (YOS). The bonus is offered in three increments; \$15K per year for five years, \$12.5K per year for four years, \$10K per year for three years and \$6K for a one-year contract.

can afford to pay their High Potentials what they deserve without having to pay everyone in the cohort the same. Under this structure, Top Leaders can keep overall costs down while also increasing the loyalty of their High Potentials.

Goldman Sachs uses performance-based pay as its primary mechanism to reward High Potentials and believes that the program effectively aids in retaining them, too. Mr. West emphasized that a junior trader can make more money than a senior corporate leader based on the sheer profit he or she is able to generate. “We are a corporation that allows a hard-charging major to earn more than a full bird colonel—two ranks above him—based on his performance.”<sup>90</sup>

Goldman is not alone. Luke Hillier, the CEO of ADS told us, “We have no financial caps tied to any positions.” ADS is structured to pay for a High Potential’s performance regardless of his or her position.<sup>91</sup> A slight variation on the pay for performance model can be seen at Enterprise Rental Car and Chik-fil-A. Both pay their location managers a certain portion of the profits they bring in. As noted earlier, it is not uncommon for a Chik-fil-A store manager to make well over \$100K a year. An Enterprise Rental Car regional manager can increase his salary by 20% a year and make up to \$200K in less than ten years as a High Potential employee.<sup>92</sup> According to those we spoke with at these companies, this kind of financial compensation for performance definitely increases a High Potential’s desire to stay with the company.

Another idea similar to the pay for performance structure is to slightly lower base pay across the board and then use the excess money to boost special pay that rewards hard work and exposure to risk. Under this structure, the lowest performer who avoids the most demanding jobs would not make the same amount of money as a person engaged in the most challenging jobs. If NSW were to implement something like this it could possibly double the amount of “hostile fire pay” from \$225 to \$500 a month. Or it

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<sup>90</sup> West (Goldman Sachs).

<sup>91</sup> Luke Hillier (CEO, Atlantic Dive Supply), interview by authors (Virginia Beach, VA, September 13, 2011).

<sup>92</sup> Reichheld and Teal, *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value*, 23.

could increase pay for certain types of overseas jobs to compensate people who choose to accept more challenging assignments. Either way, paying a High Potential the same amount as low performers in the same cohort simply does not occur in the private sector for good reason.

***b. Pay-Banding***

Pay Banding represents a variation on the performance-oriented theme. According to Reichheld and Teal, “Most reward systems are far too generous to mediocrity and far too stingy on rewarding performance.”<sup>93</sup> By allocating too much money across the board, a company can hinder its own ability to reward superior performance. In an effort to differentiate between low, middle, and high performers, companies such as Chevron and Cooper Industries have developed pay scales that adjust to the performance of an individual.<sup>94,95</sup> Such scales essentially divide every peer group into three performance bands. The amount of pay is then based on which performance band a person is determined to be in. This often is a way for companies to reward their top performers without having to increase the overall amount of pay to everyone in a peer group. Pay-banding actually enables an organization to maintain a competitive industry payroll. The recognition High Potentials receive via pay-banding strengthens loyalty between High Potentials and their companies and is something that would permit the U.S. military to pay its High Potentials more than their peers who are not achieving the same standard.

***c. Bonuses***

The most common monetary-based incentive is the bonus. During our research, we came across two distinct types of bonuses: one based on individual performance, and a second tied to the company’s overall performance. For example, Wellington Management uses an individual’s personal performance as the determining

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<sup>93</sup> Reichheld and Teal, *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value*, 134.

<sup>94</sup> Haas, Hassmann, and Barron (Chevron, Drilling and Completions Division).

<sup>95</sup> Hachigian (Chairman and CEO, Cooper Industries) and Monesmith (Corporate Human Resources Vice President, Cooper Industries).

factor for his or her bonus.<sup>96</sup> In some ways, this is similar to the methods used by Morgan Stanley, Goldman, ADS, Enterprise Rental Car, and Chick-fil-A to pay their High Performers.

A different strategy was highlighted by Rob Raymond, the head of a successful hedge fund in Dallas, TX. Mr. Raymond uses the fund's overall performance as the measure for bonus allocations. Based on the corporate position of each of his employees, Mr. Raymond allocates that individual a percentage of the annual bonus money. His intent in using this system is based on his feeling that when an employee's financial benefits are tied to the performance of the company as a whole, the individual will be more loyal to the performance of the team.<sup>97</sup> While both methods are clearly linked to the success of the company during a given year, the difference comes with rewarding the individual versus the team.

#### *d. Stock Options*

Stock options are another form of bonus used by companies like AT&T and Morgan Stanley. As in the previous example, stock options incentivize the High Potential to work harder to make the company more valuable because he or she will only benefit when the shares are sold. The company gains because it can pay a slightly smaller amount up front yet earn the long-term dedication of this High Potential employee at the same time.

"We want our High Potentials to have a vested interest in our organization. ... Stock options for bonuses are an outstanding way to accomplish this."<sup>98</sup> Again, as with other options, the company gets a High Potential who is trying to perform in a way that helps the company, while also helping him or herself.

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<sup>96</sup> Flaherty (Partner, Wellington Management).

<sup>97</sup> Rob Raymond (Dallas Hedge Fund Manager), interview by authors (Dallas, TX, November 4, 2011).

<sup>98</sup> New York-Based Bank, interview by authors (New York, NY, September 9, 2011).

The stock option concept is potentially relevant to NSW and USSOF because it enables an organization to pay less up front, while reaping the benefits of greater rewards down the road. If NSW paid a member some portion of his bonus in tax-deferred stock options through the Thrift Savings Program, that money would have the potential to grow over time. Essentially, a \$5K increase in bonus money in the form of a stock option could be worth twice that much 10 years later—with no extra cost to NSW when the stock is sold. It is ideas like this that would help the military demonstrate its loyalty to its High Potentials without incurring too great a monetary cost to retain these people.

*e. Retirement Plans*

A company's retirement options also often play a significant role in its ability to retain High Potentials. Obviously, better retirement plans entice employees to stay with the company. Chevron has the most straightforward and successful retirement plan we saw, to include a graduated / scaled program that provides a Top Leader with the chance to ultimately earn 90% of his or her annual salary upon retirement. For every year a Top Leader works for Chevron, the company adds two points.<sup>99</sup> For example, if a Top Leader for Chevron works for twenty years, he or she will have forty points added to his or her total; 20 + 40 means that Top Leader will earn 60% of his or her annual pay at retirement. A Top Leader who does 30 years at Chevron will earn 90% of his or her highest annual pay on retirement (the program is capped at 90%). Chevron's ability to pay Top Leaders 90% of their active salary when they retire has to be a fairly significant financial commitment in the eyes of rising High Potentials.

The U.S. military is experimenting with different concepts and means of tweaking the retirement system and could benefit from using some of the concepts just described. Since paying a USSOF retiree 90% of his active pay on the day he retires is not likely to happen, other creative solutions need to be thought of that could help increase the amount of money that SOF operators get in retirement.

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<sup>99</sup> Haas, Hassmann, and Barron (Chevron, Drilling and Completions Division).

Most companies offer matching contributions to an employee's 401k. If NSW offered to match an individual's contributions to a Roth IRA, just \$5K a year would enable a High Potential to save \$10K vice \$5K. The long-term loyalty benefits to be gained from this kind of reward would be enormous and, again, would only cost the military a small amount.

Another option for boosting a retirement package would be to include an individual's special pays into the retirement calculus. Alternatively, by allotting 10% extra in pay per valor award—as is currently the case for an Extraordinary Heroism (EH) award—the military could more appropriately award operators for their battlefield performance.<sup>100</sup> Improvements like this would not cost the government too much money, since they would be directed at a small number of people, vice an entire cohort.

#### *f.       Perks*

One of the most effective and creative methods used to build an employee's loyalty to a company is rewarding that individual with certain perks. Perks provide a company with a more creative way to incentivize a High Potential employee, vice using cash alone. According to several leaders whom we interviewed, perks can often be more effective than financial incentives in retaining High Potentials. The more creative the perk, the less a company may have to pay to increase a High Potential's loyalty to it. A secondary benefit is that a perk can be used to improve the quality of life for either the spouse, or the family as whole. The positive retention effects that result from a supportive family will be discussed in more detail later in this chapter.

The most straightforward system that we observed was at Morgan Stanley. Morgan Stanley was very clear that in order to retain its Top Performers, it allows them to take advantage of a variety of entertainment-type perks funded by the company. Mr. Ball of Morgan Stanley pointed to one of his High Potentials and said, "He is so talented, and brings in so much money, that if he wants me to authorize him to buy good seats at

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<sup>100</sup> DoD Financial Management Regulation 7b, September 2009.



the Yankees game from the company broker, I say yes!”<sup>101</sup> Perks like this clearly benefit the High Potential, while also encouraging that person to remain with Morgan Stanley.

In addition to monetary bonuses for strong performance, Chick-fil-A also offers incentives for performance. If a store manager increases profits by 30% in a given year, the company gives that leader use of a new company car for the following year.<sup>102</sup> If this manager meets the same mark the succeeding year, Chick-fil-A gives him or her the title to the car. Mechanisms like this clearly demonstrate a corporation’s loyalty to, and appreciation for, its High Performers and High Potentials.

The President and CEO of D. R. Horton Homes (the largest new home building company in America), Donald J. Tomnitz, was very clear that his company provides some simple perks as a way to improve the quality of life for High Potentials. He described how he had recently needed to move a High Potential and his family to a new region for a short period of time. To ease the stress of the move, Mr. Tomnitz decided to pay the mortgage on the High Potential’s home during the period he and his family were away. Instead of having to worry about renting the house or covering two mortgages, the High Potential in question was better able to focus on his job.<sup>103</sup> This decision worked out well for Mr. Tomnitz, as this specific High Potential is continuing to move up the ranks at D. R. Horton Homes. Another decision that Mr. Tomnitz made was to purchase a large ranch in west Texas. He did this in order to provide High Performing employees a place to take their families on short vacations. According to Mr. Tomnitz, the ranch became an effective incentive for employees.

Maybe the most inclusive and family-focused example of the use of perks is that of Willbanks and Thomas Investments. As Wayne Willbanks explains, “Our firm covers a multitude of smaller day to day expenses for our employees, including company vehicles with fuel allotments and insurance, country club memberships, cell phones, lap

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<sup>101</sup> Ball (Managing Director, Morgan Stanley), interview by authors.

<sup>102</sup> Reichheld and Teal, *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value*, 134.

<sup>103</sup> Tomnitz (President and CEO, D. R. Horton Homes).

tops, home computers, and home internet service.”<sup>104</sup> His rationale boils down to the fact that he increases the job satisfaction of his employees—and their loyalty—by providing these perks. In fact, he feels that he gets a much higher rate of return from these investments than from a large financial bonus system. Basically, the perks that he provides cost much less than the bonus system that would be required to gain him the same return. Because these perks benefit family members, he also earns their loyalty to Thomas and Willbanks.

A further example of Mr. Willbanks’ devotion to families is evidenced by his college scholarship program created for the children of long-term employees. Mr. Willbanks feels that he gains significant loyalty from being able to positively affect employees’ families. In the end, he finds that his programs are very effective in maintaining a high-level of employee job satisfaction.

The benefits of involving the families of High Potentials can also be seen in the approach taken by the Dallas Cowboys. Stephen Jones, President of the Cowboys, works hard to try to involve the families of players and employees. During training camp, players’ families can attend a Sunday evening barbeque that is hosted by the Cowboys. The team also throws holiday parties that give families an opportunity to associate with teammates’ families. At these parties, the organization offers a supervised children’s party with fun activities and what they term the “rowdy room.”<sup>105</sup> The Cowboys not only win points with the players’ spouses by offering a fancy holiday party at the stadium, but the kids are ecstatic about the chance to go bonkers in Cowboys Stadium! Targeting the kids with perks ... what a clever idea. Mr. Jones, recognizing how important it is to gain the support of a player’s family, believes the overall happiness of the family is often the driving factor in a top player’s decision to remain with the team, vice leaving for a higher salary elsewhere.

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<sup>104</sup> Wayne Wilbanks (Wilbanks, Smith, and Thomas), interview by authors (Norfolk, VA, September 13, 2011).

<sup>105</sup> Jones (President, Dallas Cowboys) and Williams (Director of Football Administration, Dallas Cowboys).

Not everyone believes that perks are the best way to incentivize High Potentials. As mentioned earlier in this section, Goldman Sachs uses above-average pay as its primary method to incentivize its High Potentials. As Owen West explained, “There are no retirement plans, no perks, no free dinners, no baseball tickets, just good pay”<sup>106</sup> Goldman believes that by paying a High Potential a more than competitive salary it is providing that individual with enough of a financial base to finance his or her own perks. However, as we will see in the next section, Goldman Sachs does use some creative options for maximizing the work-life balance for a High Potential with sabbaticals and flexible scheduling.

Could perks work for NSW and USSOF for retention purposes? Absolutely, since they could reward performance and loyalty with a reward that has a greater yield than a purely financial investment. As it is, there are already some perks that go along with the day-to-day job of being a USSOF operator, and the benefits do contribute to a person’s desire to remain in the military. Yet, others remain to be explored.

### **C. RETENTION TOOLS TO IMPROVE WORK-LIFE BALANCE**

One of our company’s goals is to provide a culture that encourages people to be as successful at home as they are at work.<sup>107</sup>

—Douglas L. Paul, Vice Chairmen at Credit Suisse

One of the most important takeaways from our research is that successful companies spend a significant amount of time and effort ensuring that a High Potential’s non-work situation is as good as his or her situation at work. The competing demands between a mid-career High Potential’s home life and the work-place are captured by the term “resource scarcity.” Resource scarcity refers to the fact that “Individuals only have a fixed amount of time, energy and resources in their total life space to devote to work, and non-work roles.”<sup>108</sup> Ultimately, a successful person is concerned about the welfare of his

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<sup>106</sup> West (Goldman Sachs).

<sup>107</sup> Paul (Vice Chairman, Credit Suisse).

<sup>108</sup> Kanfer, Chen, and Pritchard, eds., *Work Motivation: Past, Present, and Future*, 479.

or her family and wants to spend as much time with the family as possible, often limiting a High Potential's desire to perform at a peak level.<sup>109</sup>

With peak earning ages being 38–48, mid-career employees often face decisions about which is more important to their future—work or family.<sup>110</sup> “As a group, they [mid-career employees] have more family responsibilities to juggle so they may need a better sense of whether a given job move makes sense for them personally.”<sup>111</sup> The following diagram (Figure 10) from the book *Work Motivation Past, Present, and Future*, displays the concept of Resource Scarcity:

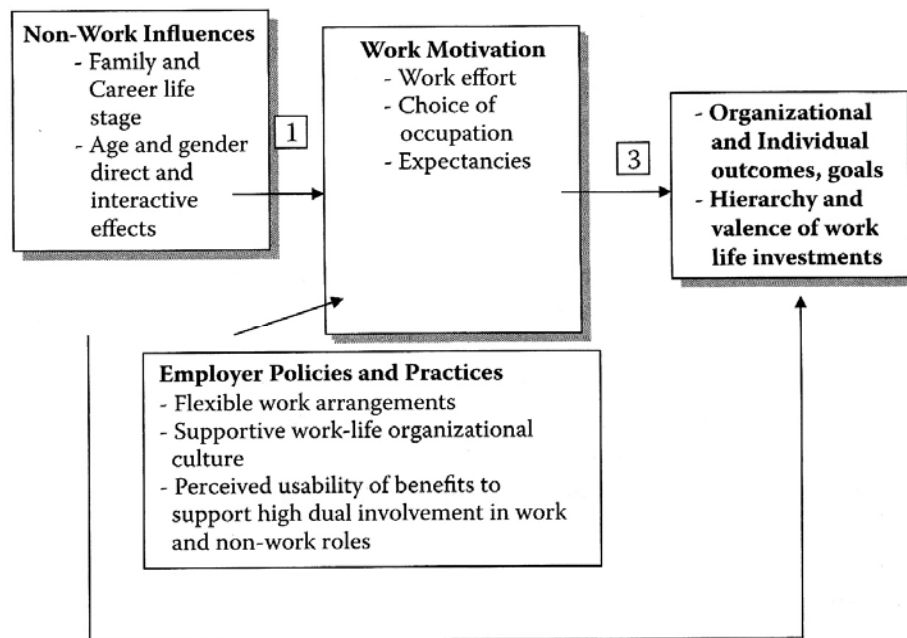


Figure 10. Concept of Resource Scarcity

<sup>109</sup> Kanfer, Chen, and Pritchard, eds., *Work Motivation: Past, Present, and Future*, 479.

<sup>110</sup> Sullivan and McLaughlin Co, Inc., interview by authors (Boston, MA, October 12, 2011).

<sup>111</sup> Kanfer, Chen, and Pritchard, eds., *Work Motivation: Past, Present, and Future*, 418.

Managing the concept of Resource Scarcity High Potential's life as a whole, and respecting his or her non- work commitments, has become a proven method of fostering a much more positive environment, as well as improving the relationship between the High Potential and his or her company.<sup>112</sup>

### **1. Flexible Scheduling**

Many of the people we interviewed consider the concept of flexible scheduling to be one of the most productive ways to improve the loyalty of a High Potential employee. Allowing High Potentials to adjust their hours in order to accommodate certain commitments at home has produced impressive results.

The accounting firm, Pannell Kerr Forster of Texas (PKF) has a particularly well designed flexible scheduling program. PKF won the Alfred P. Sloan Award for Business Excellence in Workplace Flexibility Honors for three years running.<sup>113</sup> Essentially, PKF allows its employees to shift their daily schedules in order to be more efficient with their time. An employee can choose an early or late schedule (early morning to early afternoon, or late morning to evening). In order to accommodate employees' schedules, meetings and other group events are generally held during the middle of the day when all employees are at work.<sup>114</sup> One side note, PKF feels that with this type of flexible scheduling employees are able to stay in better physical shape!

Credit Suisse also takes the "whole family" approach to incentivizing its top performers. The company has established a daycare program in its Manhattan office building as a way to provide hard-working employees convenient and cost-effective care for their children while they work. It has also established a fairly liberal vacation policy that allows High Potentials with families to take as much time off as they need so long as they maintain their overall performance level. As the company's vice chairman, Mr. Paul, affirms, Credit Suisse believes that it is in the company's best interests to encourage

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<sup>112</sup> Kanfer, Chen, and Pritchard, eds., *Work Motivation: Past, Present, and Future*, 482.

<sup>113</sup> "PKF Texas," (n.d.), <http://www.pkftexas.com/About-Us/Awards-and-Special-Honors>.

<sup>114</sup> Guidry (President, Pannell Kerr Forster of Texas) and Green (Director of Human Capital & Administration, Pannell Kerr Forster of Texas).

people to be as successful at home as they are at work.<sup>115</sup> According to Paul, Credit Suisse’s “family-friendly” culture has allowed it to retain many of its High Potentials without having to use more expensive financial options.

Truett Cathy, the founder and owner of Chick-fil-A, has taken an altogether different approach. When he opened his first restaurant in 1946, he made the decision to close on Sundays. He has often said that his decision was as much practical as spiritual, and that all employees should have an opportunity to rest, spend time with family and friends, and worship if they choose to do so.<sup>116</sup> The obvious willingness to sacrifice profits for the benefit of his employees is significant and clearly helps build long-term loyalty to the company.

Home Depot has adopted a different form of flexible scheduling by allowing athletes training for the U.S. Olympic team to work around their training schedules.<sup>117</sup> While this situation clearly helps the athletes be able to train, it also enables Home Depot to employ highly competitive and successful people. An added benefit is that the company is able to employ these athletes as role models for the rest of its workers.

USSOF—especially NSW—has largely been forced into using some sort of flexible scheduling over the past decade thanks to its extremely high operational tempo (OPTEMPO). Flexible scheduling has enabled SOF members to spend more time with their families given their limited time at home. Essentially, USSOF has proven that flexible scheduling has a positive effect on the morale and long-term capability of the force.

## **2. Work from Home**

Another version of flexible scheduling that has yielded positive results for some companies is work-from-home programs. Employees typically will do much of their work from home, only coming in for important face-to-face meetings. With improved

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<sup>115</sup> Paul (Vice Chairman, Credit Suisse).

<sup>116</sup> Chick-fil-A, “Why We’re Closed on Sundays,” 2012, <http://www.chick-fil-a.com/Company/Highlights-Sunday>.

<sup>117</sup> Reichheld and Teal, *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value*, 134.

connectivity between office and home, adopting a program like this has obvious retention benefits for High Potential working parents.

At one company we visited we were told, “Our organization believes in being as flexible as possible when it comes to the work styles of our High Potentials. If, under the ‘my work’ program, a High Potential chooses to work from home, so be it, as long as they continue to perform.”<sup>118</sup> Additionally, the company piloted a new network platform that allowed its employees to more effectively conduct group meetings from their homes. As a result, this company has won multiple awards for its support of working mothers. Again, the level of commitment to High Potentials from corporate leaders is important in building loyalty.

In the NSW and SOF realms, some classified work should be able to be done at home. The more High Potentials and Top Leaders can access classified networks from home the easier it will be for a SOF High Potential to leave work in time to be home for dinner while also getting work done prior to returning to base the next morning. Small adjustments like this could drastically improve the quality of life for a High Potential during high OPTEMPO periods—and High Potentials are almost always operating in a high OPTEMPO environment.

### **3. Location**

Uprooting talent drives out Top Performers.

—Randall Stephenson, CEO, AT&T

While there are definitely many developmental benefits to moving High Potentials to different branches of a company, many corporate leaders we spoke with see risks in doing so. Since it is normal for mid-career High Potentials, both men and women, to be raising a family during their peak performance and earning years, they are usually reluctant to continually relocate. Every CEO must take this reality into account when trying to develop High Potentials. Maybe moving them around to different areas of the company should be done differently.

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<sup>118</sup> New York-Based Bank.

For instance, of the companies we visited, AT&T took this problem most seriously. Mr. Stephenson clearly recognizes the risks associated with moving High Potentials too often, as the above quote indicates. In addition to implementing a number of different methods to deal with the issue of work-life balance, AT&T has made an enormous commitment to its employees by geographically centering the majority of its operations in the greater Dallas-Ft. Worth area. According to Mr. Stephenson, the ability to move High Potentials around to different divisions within the company, while also homesteading them in the Dallas area, has proven to be one of his most successful retention tools.<sup>119</sup> In his view, AT&T's commitment to providing its High Potentials with the opportunity to advance, while also taking care of their families, has been amply rewarded.

D. R. Horton Homes is another company that recognizes the importance of keeping leaders geographically based. D. R. Horton wants its High Potentials to be regionally smart, and in doing so reaps the benefits from keeping its mid-career leaders rooted in a primary residence.<sup>120</sup> Consequently, the company makes every effort to keep its High Potentials stabilized if their performance merits it.

Since military families are forced to move often, Top Leaders must continue to do their best to help individuals take care of their families while still achieving the overall mission. Just as AT&T has found clever ways to diversify the career of a High Potential while also allowing him or her to maintain a permanent residence in the greater Dallas-Ft. Worth area, NSW should continue, and improve where feasible, its efforts along these lines.

#### **4. Sabbaticals**

The final example of a long-term retention incentive is the use of sabbaticals as a way to refresh hard-charging High Potentials. Just as flexible scheduling and work-at-home programs promote an improved work-life balance, the use of sabbaticals offers a High Potential the opportunity to improve his or her non-work situation.

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<sup>119</sup> Stephenson (Chairman and CEO, AT&T Inc.).

<sup>120</sup> Tomnitz (President and CEO, D. R. Horton Homes).



Several of the companies that we visited direct their High Potentials to take a sabbatical every few years. For example, PKF mandates a 90-day paid sabbatical every three years. PKF's president, Mr. Guidry, feels that sabbaticals positively contribute to the long-term health of the company's relationship with its High Potentials by keeping them motivated for the long haul.<sup>121</sup>

A leading financial firm in New York also mandates a four-month sabbatical after six years of work in the company.<sup>122</sup> This is a smaller company that relies heavily on the relationships it develops with its High Potentials and Top Leaders over a long period of time.

Imperial Sugar also uses a flexible sabbatical program that allows its employees to pursue advanced degrees in their specialty area within the company. CEO John Sheptor regards this as a double-win; it is in the company's best interests to further develop a High Potential employee, and the High Potential returns with an enhanced understanding of his or her position.<sup>123</sup> Imperial Sugar also allows its High Potentials to seek short-term internships with non-peer companies whose particular expertise will enhance the High Potential's education and development. For example, a production line leader might briefly work at a different kind of food company in order to gain exposure to a different way of doing business. This type of sabbatical more closely mirrors a cross-functional developmental job, but also serves as a way for a High Potential to step back from the rigors of day-to-day operations at Imperial Sugar.

Goldman Sachs, which resists most non-monetary incentives, is willing to reward High Potentials with the opportunity to take a sabbatical. For example, Mr. West described how he had requested a year-long sabbatical to climb Mt. Everest and some of the other high peaks in the Himalayas. Goldman decided to endorse the sabbatical because of Mr. West's status as a High Potential, allowing him to return to his position

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<sup>121</sup> Guidry (President, Pannell Kerr Forster of Texas) and Green (Director of Human Capital & Administration, Pannell Kerr Forster of Texas).

<sup>122</sup> New York-Based Private Investment Firm, interview by authors (New York, NY, September 8, 2011).

<sup>123</sup> Sheptor (CEO, Imperial Sugar) and Muller (Human Resources Vice President, Imperial Sugar).

after his time away.<sup>124</sup> What is interesting is that there are no set timelines, methods, or rules that apply to Goldman Sachs' policies. If a High Potential is driven enough, the company will allow him or her to be creative in determining his or her own retention incentives.

Karen Hargrove, a former Microsoft executive, did sound one cautionary note: "We [Microsoft] tried various sabbatical systems focused on rewarding High Potentials, but unfortunately these opportunities began to be used for less than productive means. Some began to use them for job hunting while others perceived them as an entitlement. Ultimately the program was done away with."<sup>125</sup> The willingness to let High Potentials leave the office for long periods of time *is* a risk, and Microsoft clearly did not feel the gains outweighed the costs involved. For the sabbatical to be successful, a company must believe that a High Potential is committed to the company's long-term success. This kind of confidence comes with having a strong corporate culture, which will be discussed in the next section.

Of all the retention incentives discussed, sabbaticals are probably the easiest for NSW and USSOF to adopt right now. They would certainly assist a High Potential and his family to decompress between high-intensity tours. If nothing else, a sabbatical program should be developed and implemented in order to build faith between SOF High Potentials and Top Leaders. Within NSW, the only current equivalent is graduate education. Graduate programs are excellent opportunities for an officer to step away from combat and earn a master's degree. The families obviously benefit with having him home every night and are able to engage in family activities in a much more predictable way. The only downside to the graduate programs is that they require the family to move to one of the school sites.

An alternative to moving would be to give an officer a three-month window in which to complete his required Joint Professional Military Education (JPME) online. The officer could, essentially, work at home. This would be a win-win because it would allow

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<sup>124</sup> West (Goldman Sachs).

<sup>125</sup> Karen Hargrove (Entrepreneur and Angel Investor), interview by authors (Monterey, CA, January 27, 2012).

the officer to meet a mandatory mid-career requirement, while also enabling him to do so flexibly with maximum time spent with the family.

Because the topic of moving locations has come up several times, a sabbatical program could be used to help ease the stress of moving. For example, NSW could allow a member who is moving locations up to 90 days to do so. This would give him ample time to decompress from his last job, move his family, and then settle them into a new home and schools before starting a new job. By turning the moving process into a sabbatical experience, NSW would benefit in terms of the loyalty a member feels toward the organization.

All programs come at a cost. One solution would be to have the Navy offer to give up a day of leave for every day that a member wants to take—with a maximum number being 45 days. Since NSW officers cannot sell their leave back, a system like this would be a great way to officially make use of leave while reaping the benefits of a sabbatical-like program.

#### **D. THE STATUS AND CULTURE OF A COMPANY**

While a Company can use any number of rewards to incentivize their High Potentials, the CEOs we interviewed were generally more focused on ensuring that their company's success, as well as its culture, is strong enough on its own to incentivize High Potentials to stay with the organization for the duration of their careers. As mentioned a number of times in Chapters II and III, the culture of an organization is one of the founding factors in keeping High Potentials engaged.

##### **1. Being the Top Company in Your Industry**

Organizational identity literature has argued that employees derive part of their social identity from the image of the organization in which they work. ... To the degree that employees perceive that the organization has an image that reflects positively on their own social identity, they will make greater efforts to contribute to the organization's success.<sup>126</sup>

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<sup>126</sup> Kanfer, Chen, and Pritchard, eds., *Work Motivation: Past, Present, and Future*, 378.

This quote applies directly to companies that are at the pinnacle of their field, a position that lends companies one of their primary retention tools. Being #1 instills a significant sense of pride in employees and, we were told over and over, is one of the primary drivers for retaining Top Leaders.

D. R. Horton Homes, which is consistently #1 in new home building in America, has been able to retain its best people despite the housing slump. According to CEO Mr. Tomnitz, his company's position as the top-ranked home building company reassured Top Leaders and High Potentials that their company was one of the few organizations within the sector sufficiently well positioned to make it through the slump without having to close its doors.<sup>127</sup> For leaders in the home construction industry, sticking with the top company during a major housing slump just makes sense.

The Dallas Cowboys and New England Patriots also use their status as champions to entice top players and employees to remain with the teams. Widely known as "America's Team," Dallas has long been regarded as the most popular football team in America. Add a new state of the art stadium into the mix, and the result is that top players are willing to stay with the organization for less money than they could make elsewhere. The New England Patriots have also been able to increase their impressive standing as an organization over the past decade (by winning three Super Bowls), and are now able to use their winning brand to encourage top players and staff members to stay with the organization—often at less than market value.

Morgan Stanley, Goldman Sachs, and AT&T similarly benefit from their images. These organizations rely on their standing as leaders in their respective industries to aid in their ability to retain High Potentials. Mr. Ball of Morgan Stanley said that his "firm has clout and builds loyalty because it is always #1 or #2. Competition with Goldman [Sachs] helps drive that loyalty."<sup>128</sup>

It should be noted that some companies are actually quite proud of the fact that, thanks to the stability and benefits that come from being top in their field, they can

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<sup>127</sup> Tomnitz (President and CEO, D. R. Horton Homes).

<sup>128</sup> Ball (Managing Director, Morgan Stanley).

actually pay their employees slightly less than the industry average. Chevron, Cooper Industries, D. R. Horton Homes, the Dallas Cowboys, and the New England Patriots, all credit their positions as industry leaders with enabling them to retain leaders without having to rely on higher than average salaries.

A great example of the good—and the bad—that can come with being number one is National Aeronautics and Space Administration (NASA). As a result of its standing as the undisputed leader in space exploration for the previous half century, NASA had little trouble retaining the world’s best scientists, engineers, and astronauts at less than exorbitant government pay. However, ever since the executive decision was made to cancel the shuttle program in order to contract manned space flight to private corporations, NASA has lost its status as the leader in manned space flight. Without the status of being number one, NASA is no longer able to retain its High Potentials and Top Leaders on a strict government pay system.<sup>129</sup> As a result, NASA is being eclipsed by private companies that are recruiting NASA’s talented employees through higher salaries, and better mission opportunities.

In contrast, NSW and USSOF have irreplaceable incentives by which to retain their leaders: the nature of the job, job satisfaction, assignments no one else can be given, and patriotism, just to name a few. NSW and USSOF are indisputable ‘industry’ leaders, but no matter how high their status, it alone will not retain High Potentials. It still takes dedicated work by Top Leaders that High Potentials want to work for, as well as a reasonable incentive structure to retain them. Again, figuring out what is reasonable is the challenge—otherwise, companies that have perfected this may come poaching.

## **2. The Culture of a Company**

As discussed in Chapter II, the culture of an organization directly affects the morale and productivity of its employees. While having a strong culture is essential for the bottom line, it is also one of the keys to retaining an organization’s best employees. “A growing body of research suggests that employees derive value from sources other

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<sup>129</sup> NASA Human Resources Management Office, interview by authors (Houston, TX, November 9, 2011).

than extrinsic rewards. ... One such perception is the notion of person-organization fit, which is conceptualized as the degree of alignment between employee and organizational values.”<sup>130</sup> Maier and Brunstein, for example, found that “individuals who were committed to their goals and perceived the organizational environment to be favorable for attaining those goals, had higher organizational commitment.”<sup>131</sup> Numerous organizations we visited consider *culture* the leading factor in retaining their Top Leaders, to include Credit Suisse, ISI, the Dallas Cowboys, the New England Patriots, Legal Sea Foods, Imperial Sugar, D. R. Horton Homes, PKF, and Chevron.

For instance, Mr. Hyman of ISI told us that his firm’s motto is: “Client, Firm, Self. Everyone on our team knows that this is our focus and it drives our organization’s culture.”<sup>132</sup> His hiring, reward, and retention processes all flow from this philosophy. At another prominent, but smaller financial firm in New York, the CEO said, “Culture, culture, culture! Knowing that a company will have your back is a must. If a company is not willing to underwrite the occasional failure, employees will shy away from aggressive, cutting edge decisions.”<sup>133</sup>

NSW—and USSOF—obviously benefit enormously from having a culture that all operators want to belong to. Loyalty to that culture is cultivated in each individual from the very beginning of the demanding training pipeline, and is generally reinforced all along the way. Yet, as with the stature of SOF itself, culture alone is insufficient to retain High Potentials who are seeking personal fulfillment in addition to mission fulfillment. Obviously, leaders who are willing to stay with NSW despite sacrifices made by their families are most desired. Some of USSOF’s Top Leaders say that they only want High Potentials—and all officers for that matter—to stay if they are willing to sacrifice everything, just as they themselves have done. Unfortunately, when this type of mentality

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<sup>130</sup> Kanfer, Chen, and Pritchard, eds., *Work Motivation: Past, Present, and Future*, 377.

<sup>131</sup> Gunter W. Maier, and Joachim C. Brunstein, “The Role of Personal Work Goals in Newcomers’ Job Satisfaction and Organizational Commitment: A Longitudinal Analysis,” in *Work Motivation: Past, Present, and Future*, eds. Ruth Kanfer, Gilad Chen and Robert D. Pritchard (New York, NY: Routledge Taylor & Francis Group, 2008), 116.

<sup>132</sup> Ed Hyman (CEO, International Strategy & Investment), interview by authors (New York, NY, September 9, 2011).

<sup>133</sup> New York-Based Private Investment Firm.

pervades the community, mid-career officer-manning problems, like those that currently exist, result. Again, culture helps—but no organization that strives to be the best can afford to sit on its laurels or grow complacent. An aggressive implementation of creative retention solutions is critical to stem, and ideally reverse, NSW’s early separation trend.

### **3. Retirement Clubs**

Not to be confused with the pure financial benefits of a company’s retirement plan, one of the most interesting concepts we came across was that of the “Retirement Club.” Retirement clubs are post-career groups designed by organizations to maintain connectivity with their retirees. The goal is to allow dedicated subject matter experts to return to work when projects related to their expertise allow.

Imperial Sugar has a retirement club and often uses the club’s members to assist with current operations. It will hire certain specialists for a stipend when their expertise is needed. Periods of work may vary from ten days to three-months.<sup>134</sup> The Dallas Cowboys have numerous charity organizations and use their retired players to work at various charity events and with community groups in order to positively contribute to the community as well as promote the brand.<sup>135</sup>

Creating opportunities and structures for retirees to stay connected in order to help solve problems is a fascinating way to foster a culture of long-term loyalty. As Mr. Leskin of Talent Management Consulting says, it is important to “make it easy for High Potentials to get back in, even if they previously decided to leave the organization.”<sup>136</sup> Roger Berkowitz, CEO of Legal Sea Foods, promotes this concept and emphasizes the benefits of allowing his Top Performers to return to the company after they have left.<sup>137</sup> Vertex Pharmaceuticals is another company that advises, “Make the path for ‘getting back in’ easy, and don’t shun those who choose to get out.”<sup>138</sup>

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<sup>134</sup> Sheptor (CEO, Imperial Sugar) and Muller (Human Resources Vice President, Imperial Sugar).

<sup>135</sup> Jones (President, Dallas Cowboys) and Williams (Director of Football Administration, Dallas Cowboys).

<sup>136</sup> Leskin (President, Talent Management Consulting).

<sup>137</sup> Berkowitz (CEO, Legal Sea Foods).

<sup>138</sup> Vertex Pharmaceuticals, interview by authors (Boston, MA, October 13, 2011).

Having a path that would allow a High Potential to return to service for short or long periods of time would be of enormous benefit to NSW. For example, two High Potentials who just left the service this year each have unique skill sets. They both built sensitive programs from the ground-up, and instead of completely losing their expertise now that they are out, an “easy-in” system could help bring them back for short periods in order to tweak the systems they built. Since NSW is so short-handed, it would make sense to try and capitalize on leaders who are willing to come back and work for varying periods of time.

#### **4. Conclusion**

Ultimately, trust between a High Potential and the company he or she works for is the essential element that will keep him or her with that company. If the High Potential believes that his or her values are shared by corporate leaders, that person will clearly be more willing to stay loyal to that organization. Each of the concepts described in this chapter build faith between the High Potential and the company as a whole. As we have seen, companies that can effectively build—and sustain—these relationships reap the benefits enjoyed by high retention rates.

Meanwhile, no matter how important it is to retain High Potentials, senior leaders must also always be aware how these actions might impact the overall climate of the company.

Leadership has to cater to [High Potentials’] individual wants, but must also try not to unbalance the overall morale of the desk while doing so. This does take a lot of work, as giving more leeway to one employee over another must be done in a way that does not ruin the chemistry at the desk or on the trading floor.<sup>139</sup>

—Owen West of Goldman Sachs

The unequal distribution of rewards is a fine line that Top Leaders must walk so as to not upset High Performers or the balance of the overall work environment. Trying to incentive High Potentials while also keeping others happy will remain a challenge.

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<sup>139</sup> West (Goldman Sachs).



Recognizing and effectively managing this is essential to the long-term health of any organization. This point really drives at the motivation for this thesis, as the Special Operations community is clearly challenged by how best to achieve this balance. When the only means available to reward High Potentials is via job selection and placement, retention is going to suffer. Additionally, since most operators feel that they are top performers, the discontent felt when peers are selected over each other often has significant negative effects. Understanding the need to break out High Potentials, while keeping the High Performers working hard, is a major challenge for USSOF.

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## V. RECOMMENDATIONS<sup>140</sup>

The shame of this loss of talent is that the U.S. military does such a good job attracting and training great leaders.<sup>141</sup>

–Tim Kane in *The Atlantic*

Given higher-than-normal resignation rates by mid-career officers (9–14 years of service) in the NSW community, this chapter is intended to highlight some areas that may help NSW and USSOF improve their rates of retention. Specifically, we will attempt to show why and how some of the practices identified in corporate America translate to elite military units. Since much of what we gathered came directly from the senior leaders of some of the most successful companies in the country, we believe their methods bear serious consideration.

Clearly, there are differences between corporations and USSOF; however, there are also striking similarities. In both realms, one of the most powerful sources of retention for High Potentials is personal loyalty to the organization. Likewise, mid-career transition points in the military and in corporate America occur at roughly the same time; when organizations need their best people to sacrifice the most, High Potentials are forced to choose between more time at work or more time with their families. This career transition point leads to High Potential retention issues in both worlds. As reported in the previous chapters, the business community has recognized this problem and taken measures to retain its best people *through* this transition period.

We contend that USSOF units have even more to lose at this transition point given the costs of training. The knowledge acquired by key leaders over a decade’s worth of combat operations is even more irreplaceable. Also, the loss of the best leaders ultimately leads to the loss of younger High Potentials because promising junior personnel expect to be led by the very best. This may be even truer in USSOF than in

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<sup>140</sup> A number of the concepts that are discussed in this thesis have been further developed by SEALs at the Naval Postgraduate School during a series of NSW-specific directed study courses. Greater detail and additional ideas can be found in the archives of the “Titan’s Spear” project. POCs for this information are any SEAL in the Defense Analysis Curriculum at NPS or Professor George Lober: gwlober@nps.edu.

<sup>141</sup> Kane, “Why Our Best Officers are Leaving.”

business, where life and death are not on the line. For these reasons among others it would behoove the military to pay attention to the private sector's talent management and retention strategies. Below are our recommendations for how to do so, with one caveat.

As mentioned in the introduction, the intent behind this thesis and research project is not to provide a silver bullet in terms of which specific programs should be adapted. Instead, we recommend concepts that should be suggestive for how to address a serious issue. Each concept would need to be thoroughly researched and tested prior to implementation. Also, while the overall thesis is directed towards USSOF in general, we have focused on the NSW community as a test group because of its small size, the severity of its mid-grade officer retention problem, and our familiarity with it.

#### **A. ROBUST HUMAN RESOURCES CAPABILITY**

At every company, the veterans were shocked to look back at how “archaic and arbitrary” talent management was in the armed forces. Unlike industrial-era firms, and unlike the military, successful companies in the knowledge economy understand that nearly all value is embedded in their human capital.<sup>142</sup>

-Tim Kane in *The Atlantic*

Our first and most important recommendation is to create more robust human resources capabilities within NSW. What came through time and again in our interviews was the amount of effort and resources highly successful organizations expend on human resource issues. The most productive HR departments are staffed by subject matter experts who are involved in career management, career development, coaching, and many other personnel management roles throughout an organization. These individuals serve as advocates for all employees, while simultaneously executing policies developed by the leadership. They are thus able to spot trends, such as retention issues, and devise plans to address them before they have critical negative effects. Dedicated HR staffs maximize human performance by truly knowing individuals and paying attention to their preferences, needs, and circumstances.

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<sup>142</sup> Kane, “Why Our Best Officers are Leaving.”

In contrast to the corporate world, military organizations rely on leaders to fulfill many of these HR roles. Yet, while military leaders should be expected to make sound decisions about their people, they cannot be expected to be HR experts. There is a difference between knowing your people well enough to motivate and lead them and understanding how to best accommodate their family's scheduling needs. Military leaders would be greatly assisted by being able to transition some of their current administrative staffing requirements to Human Resource experts, who should be hired specifically for their expertise in the field. This does not mean NSW should hire its favorite retired senior enlisted or officers as HR staff. That strategy defeats the purpose altogether, as the goal should be to hire only the very best HR experts from corporate America.

For example, each NSW SEAL Team Commanding Officer (O-5) could be allotted one Human Resource expert (for a total of four per NSW Group). These four HR professionals would then report to an augmented HR staff at the NSW Community Detailer's headquarters in Millington, TN. These HR experts would be able to more effectively track the movements of every officer and enlisted SEAL for years at a time, vice the current rotation of Commanders and Senior Enlisted advisors through these personnel jobs. Additionally, having a more robust HR staff would significantly reduce the amount of non-SEAL leadership tasks that are currently undertaken by the SEAL Detailer and Community Managers. A robust HR shop would give NSW the ability to take a longer-term view of individual careers. This is especially important for the career management of High Potentials, since they are very susceptible to "burnout" from the demands associated with the high stress positions that they constantly occupy. A mature HR shop would also be able to recognize what options to offer an individual to assist him (and his family) refresh and recover.

HR professionals devoted to NSW would be able to determine which retention mechanisms among those mentioned in this thesis would be most suitable to NSW. They would be well positioned to enhance the quality of life for leaders and their families overall. In order to earn the respect needed to institute important changes, these HR professionals would have to be impressive themselves; therefore, hiring HR professionals who are top quality is crucial to making this type of program work. In short, employing

more highly experienced HR professionals would be the first step towards implementing the concepts we believe would staunch the flow of High Potentials from NSW.

### **1. Sponsor Program**

As part of a more robust / forward-leaning HR focus, we believe NSW should consider adopting Chevron's Sponsor program, as described in Chapter III. Specifically, identified High Potentials should be assigned to the human resources department for a two-year period to be "sponsors." Such a program would benefit both the organization and the High Potential. First, the sponsor would be exposed to all facets of the organization. This would develop the High Potential beyond his area of expertise since he would be required deal with HR matters and advocacy. At the same time, the job would expose the High Potential to Top Leaders he would not otherwise meet throughout the organization. As discussed in Chapter III, relationships are extremely valuable to the development of High Potentials. By having High Potentials serve as sponsors, NSW would be exposing junior leaders to role models a couple of peer groups ahead of them. The sponsor would thus himself be in a position to scout for talented junior officers, and because the sponsor has already been identified as a High Potential, he would have credibility with Top Leaders to draw attention to other highly talented individuals.

While a job of this nature would obviously not appeal to all junior or mid-grade officers, there are opportunities to use a job like this as a "decompression" tour. One possibility for implementing this type of program would be to assign an O-3 to each NSW Group to be responsible for aiding the Detailer and HR civilian in managing his Group's officers (detailing a senior enlisted to the shop would aid in managing the enlisted members careers as well). These O-3s would not only be in charge of the small HR office, but could report directly to the Detailer and/or Community Manager. The lieutenant would be based at the Group in order to save his family from having to move to Millington Tennessee (Naval Personnel Headquarters), thereby making the Sponsor tour more desired. Obviously, sponsors would need to spend a certain amount of time travelling to Millington, but these TAD costs would be offset by not moving their families, as well as by the quality of life that families would enjoy by being based at their

last (and most likely next) duty station. While this might initially seem a very non-warrior way to do business, it would significantly increase the Detailer's understanding of his junior and mid-grade officers while also providing a valid decompression and educational tour for High Potential lieutenants.

## **B. IDENTIFICATION OF HIGH POTENTIALS VIA POSITION-BASED EVALUATIONS**

The first step in the talent management process is to create a system for identifying High Potentials that ensures retention efforts are directed toward individuals who have the potential to lead NSW in the future. By adopting a corporate, position-based evaluation study similar to the Towers Watson system described in Chapter II, NSW could more effectively break out its High Potentials. The purpose of the study would be to identify High Potentials within a specified peer group to better enable Top Leaders to then track them throughout their careers. The data collected would give NSW insight into when their High Potentials first decide to separate, which would then help NSW more effectively focus its resources and retention efforts on the right people—at the right time. This study should be conducted by a third-party organization that specializes in talent identification in order to ensure accuracy and fairness. As akin to what Towers Watson did for Rockwell Collins, the evaluations should be holistic and take into account more than just current job performance. The process should be completely transparent so leaders know where they stand within their cohort. The best time to conduct such an evaluative study would be during an individual's first "command" assignment. In NSW, this could occur during the SEAL Team Platoon Commander assignment.

If current trends persist, the study would show major attrition around the ten years of service mark. This is the period when officers in NSW typically transition from combat leadership roles to staff positions. Although staff positions are important, NSW can no longer count on job satisfaction alone to retain top talent when officers reach this point. More significantly, this career transition point also coincides with the period when most officers find themselves with greater family responsibilities. Decreased job satisfaction on top of increased family commitments leads to High Potentials seeking

alternatives. This is when elite military organizations are at greatest risk of losing them. Consequently, NSW and other USSOF units should refocus their efforts on this demographic. We feel confident an evaluative study would corroborate what we see happening among our peers.

### **C. ESTABLISH LOYALTY**

After identifying High Potentials, and the timeframe in which they are at the highest risk of leaving, NSW should ascertain the retention tools best suited to preserve its top talent. Establishing loyalty to NSW should be the main goal. NSW's leadership must make it known to all High Potentials that their worth to the organization is recognized and appreciated; High Potentials need to know that they will be taken care of.

There are numerous effective tools for building trust that the military can borrow from the business world. The most transferable of these include effective mentorship programs and increased family support mechanisms.

#### **1. Mentorship**

The primary corporate loyalty-building method, which we believe to be directly transferable NSW, is the practice of actively maintaining an effective mentorship program. An organization shows its best people their importance by investing in their individual growth. We recommend applying AT&T CEO, Randall Stephenson's dedication of time. Despite being the CEO of one of the largest companies in America, Mr. Stephenson invests over 25% of his time identifying and developing individuals whom he personally feels are critical to AT&T's success.<sup>143</sup> He personally grooms them for future leadership roles in the company, and by spending his valuable time with each of these High Potentials and their families, Mr. Stephenson convinces them of their worth to AT&T. Top Leaders in NSW should spend more time trying to personally mentor NSW's High Potentials, and do so for the duration of their careers.

Based on our exposure to several mentoring programs, we also recommend establishing more effective mentoring programs specifically tailored to link High

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<sup>143</sup> Stephenson (Chairman and CEO, AT&T Inc.).



Potential mentorees with High Potential mentors. The payoffs can be considerable and the only costs involved would be time and effort. As Mr. Hachigian of Cooper Industries said, “Touching people is free, so why not do it!”<sup>144</sup> The program would be most effective if NSW’s Top Leaders got intimately involved in mentoring a small number of the very best mid-grade officers and then kept up with those relationships as long as possible. Ensuring that over time every senior commander was involved in the program would also set the standard for the entire organization regarding the importance of developing individuals and helping secure their loyalty to NSW.

Any mentoring program must pair the High Potential with a respected and more senior officer who is not in the High Potential’s immediate chain of command. One option would be to provide every SEAL lieutenant with a list of volunteer O-5s and senior O-4s from his location. Each lieutenant would then rank order these volunteers according to his preference, based on whom he feels he would trust. The Detailer and his staff would then coordinate the pairings based on each lieutenant’s preferences, as well as mentors’ availability. For example, LT A might rank CDR B his top preference. But since twenty other lieutenants might rank CDR B number one, LT A might get pushed to his second or third choice, but ultimately would be talking to someone whom he has still personally chosen. This type of selection would provide immediate buy-in from the junior officer, which is critical to the success of any mentorship program. The intent, after all, would be for this relationship to be maintained as long as possible.

Interestingly, organizing mentorship selection this way would also reveal whom the junior leaders consider competent and likable leaders. Toxic leaders would probably never be listed or would consistently rank towards the bottom. Obviously, information like this could be very sensitive, and would need to be handled in such a way as to not negatively impact those doing the selecting.

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<sup>144</sup> Hachigian (Chairman and CEO, Cooper Industries) and Monesmith (Corporate Human Resources Vice President, Cooper Industries).

## **2. Family Support Mechanisms**

The next set of practices that we believe could be implemented are those that focus on engaging and supporting families. While the military currently allocates significant funding to family support programs, we believe these programs need to be adapted to better focus on building loyalty. For example, some companies we visited paid school tuition for their High Potentials' children. Top Leaders reported that this method of incentivizing their High Potentials went further in building loyalty than did simply adding the same dollar amount to bonuses. Understandably, such a practice could be challenging for NSW, due to budgetary constraints and regulations regarding money, but it might be achieved through public-private partnerships and foundations willing to support NSW.

One program in NSW already provides families access to the YMCA when their military member is deployed. This provides families an opportunity to have fun and engage in structured exercise programs that can temporarily make up for the fact that the husband / father is not home to coach and play with his kids. Concepts like this should be expanded to the maximum extent possible. As described in Chapter IV, anything that improves the quality of life for the family helps increase that family's loyalty to the military. Such programs are among the most economical "win-win" retention tools and should not be ignored.

Another type of family perk that could boost NSW's support for families would be to start Boy and Girl Scout troops at each NSW Group. These Scout troops could meet on the base and have limited access to things such as the obstacle course, rubber boats, camping areas on the command/base grounds, and occasional family-day events. Imagine the boost in family loyalty that might come from programs like this. In our line of work, the father is gone much more than he is home, and programs that provide a fatherly influence—while offering the mother a break from the demands of single parenthood—are critical for the long-term health of the organization.

Reducing the number of relocations during employees' careers is also an important retention tool used in the business world. AT&T attests to the benefits

associated with keeping its employees and their families in the same geographical location for an extended time period. As previously mentioned, AT&T moved all of its major divisions to the Dallas-Fort Worth area, which has enabled it to diversify the careers of High Potentials while keeping them in the same area. While we obviously understand this is not a completely resolvable issue, and that significant effort is currently expended to keep an officer and his family happy, the importance of this issue makes it worth restating. NSW could potentially achieve similar benefits by issuing multiple assignments (orders) to its High Potentials when possible. Another option for dealing with the challenges of moving the family was mentioned in the sabbatical section of Chapter IV. If a High Potential and his family are given the option to take up to three months to get settled in their next duty station, the stress of the move would be offset by the opportunity to spend an extended period of time together as a family. This type of sabbatical could be a “win-win” for NSW because the organization would get the (now refreshed) High Potential in the desired job, while building family loyalty to the organization at the same time.

#### **D. FINANCIAL INCENTIVES**

While this subheading might scare the faint of heart, and the kinds of financial incentives corporate America uses may seem out of the realm of the possible for NSW, there is a reason to mention this nevertheless. It is critically important to understand what the U.S. military is competing against, and military leaders should not ignore the fact that combat experienced junior and field grade officers are sought after in corporate America. While SOCOM has unique incentives with which to retain its leaders—mission, job satisfaction, patriotism, to name a few—it *should not* ignore the fact that though its most prized mid-career leaders *will* work for less, there comes a point when the delta becomes too large, and retention rates suffer. Just as the New England Patriots and the Dallas Cowboys are able to hire and retain top-rated players at slightly lower salaries due to the teams’ high status, this does not mean that they can pay well below market value and expect to keep those players forever. Other teams, of lesser reputation are usually willing to pay players more money to lure them away—which is similar to the reality faced by NSW.

As we mentioned in Chapter IV, there are some creative ways to restructure NSW's current bonus system, while only slightly adding to baseline costs. Regardless, even if NSW could maximize bonuses and special pays, it will likely need to find ways to do more. NSW should at least attempt to demonstrate that it is willing to try to close the gap with the outside world, which offers SOF-type High Potentials a lot of money. Hitting the right balance is obviously a continuous struggle, but based on recent statistics, the balance is currently tilting the wrong way and needs a significant adjustment.

### **1. Performance-based Financial Incentives**

As a follow-on to the discussion about increased compensation is to peg financial incentives to performance, vice seniority. We do not believe that the best midgrade officer, who continually accepts demanding jobs, should receive the same base pay, bonuses, and retirement incentives as the worst performing officer in his peer group. In fact, several CEOs at the organizations we visited believe the practice of paying for seniority incentivizes poor performers to stay in the organization while encouraging the best performers, who have the most potential, to leave their posts.<sup>145,146</sup> Businesses have solved this problem with a pay-banding type system that allows strong performers at a given level to make more money than the peers who do not perform to the same high standard. Essentially, pay is taken from the lowest performing leaders and is given to the highest performers. The examples we recommend drawing from are the systems used by Chevron and Cooper Industries, both of which allocate base salaries on a performance-based scale at each seniority level. This method does not cost a penny more than the current military pay system; it simply redistributes the same amount of money differently. Performance-based financial incentives signal to High Potentials that the organization recognizes their hard work, which in turn builds loyalty.

## **E. GRADUATED RETIREMENT**

Another way to help solve the mid-grade officer retention issue is to create a graduated retirement system. The focus of such a system should target the transition

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<sup>145</sup> West (Goldman Sachs).

<sup>146</sup> West (Goldman Sachs).

period we have discussed throughout the thesis (approximately the 9—14 years of service mark). We recommend adapting Chevron’s model of graduated retirement detailed in Chapter IV.<sup>147</sup> This system should begin at the fifteen years of service mark in order to incentivize more officers to stay through the transition period. Applying Chevron’s system directly, an officer serving for fifteen years would get a retirement of 45 percent of his or her salary (15 years + 30); an officer serving eighteen years would get 54 percent (18 years + 36), etc. The fact that this program only begins at the 15-year mark would provide a significant incentive for High Potentials to stay until at least that point. The program could then possibly increase at a higher rate to motivate an officer to remain to the 20-year mark, after which it could then increase at a slower rate. As an incentive for the military to adopt such a system, the rates of this program could be adjustable in three to five year increments, based upon retention rates, budget constraints, or world events.

In the case of NSW, incentivizing leaders during this time-window would more effectively target NSW’s O-4 retention woes. When combined with other retention tools, this system has the potential to gain a few more years of service out of the High Potentials both during, and after, the mid-career transition period. Even if just a few more of the best leaders stay with the organization during this crucial period, NSW would see immediate gains.

## **F. POST-RETIREMENT OPPORTUNITIES**

A final private sector practice that we recommend for development is a “Retirement Club.” Regardless of the effort placed on retention programs, some High Potentials will still choose to leave NSW. However, in the event that circumstances change and this leader wants to return to active duty, NSW should pursue ways to make his or her return to service as smooth as possible. One method would be to incorporate some aspects of the private sector’s use of retirement clubs into the military reserve system. Essentially, we recommend adjusting the ways that reserve units operate in order to allow for increased participation by NSW retirees.

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<sup>147</sup> Haas, Hassmann, and Barron (Chevron, Drilling and Completions Division).

A retirement club system would be beneficial, too, because it ensures that historical knowledge and subject-matter expertise that were developed over the course of an individual's career are not lost after the member retires; he still would remain in close contact with NSW. Especially useful would be mechanisms to enable him to be activated quickly and employed for short periods of time should the need arise in NSW.

In an attempt to curb a High Potential's fear that he will miss out on a high-paying job in the civilian sector by staying in the military too long, the retirement club could also serve as a job placement center that could incentivize him to stay in NSW. To underscore this point, Top Leaders with whom we spoke felt that career NSW leaders would be welcome in their organizations, even into their early forties. A job placement program would give High Potentials confidence that good jobs await them, even after spending at least 15 years in the service. Since members would only become eligible for the job placement program at the 15-year mark, this would encourage more leaders to bridge the 10-14 year gap that is currently so undermanned. Implementing a system that seeks and offers employment opportunities to this specific group of individuals is a nearly cost-free device that would reward performance over a long period of time. It would be a "win-win" for NSW because it offers a free tool that would, again, address some High Potentials' concerns during this vulnerable time window, and it would ask former Top Leaders to keep contributing to the community by helping to find follow-on jobs.

## **1. Conclusion**

The primary focus of all the programs mentioned in this chapter is to set the conditions for more High Potentials to stay in NSW during their mid-career transition period, to test a series of programs in NSW, and to take what works in NSW and apply it more broadly through USSOF and then the entire military. Improving NSW's small retention statistic alone would have significant positive impacts on the quality of SOCOM's future senior leaders and the unit's ability to effectively conduct its missions. Losing the unprecedented levels of combat experience that exist in the force today—and the maturity that comes with that—is too significant an issue to sideline.

Even as some of the best mid-career officers continue to leave, some of the retirement solutions presented here would still give these individuals alternative ways to contribute. A quality leader could either return to service very easily, or continue to positively influence the military through participation in the retirement club we have proposed. As for other immediate measures to consider, after the past eleven years of high-tempo combat operations, families deserve nearly the same consideration and treatment as High Potentials themselves. Improving the quality of life for families will only help increase the loyalty between NSW families and NSW, resulting in more leaders deciding to stay in the service.

Finally, many of these recommendations are essentially cost free, or only involve adjustments / improvements to current practices. Yet, if the only practice that is adopted from this thesis is for Top Leaders to dedicate more time and energy to grooming and mentoring their High Potentials—the future of the community—then this thesis will have been a success. Retain our nation’s most combat experienced future leaders, and NSW and USSOF will remain in the best possible hands.

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